This tutorial was originally titled "A Technician's Approach to Day Trading" and was recorded at the Online Trading Expo

Technical Analysis for Short-Term Traders

Martin J Pring

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VISIT…

The principal difference between Day Trading and other forms of trading is the time frame.

Technical analysis assumes that prices move in trends.

Trends have a tendency to perpetuate.

Look for the weight of the evidence; (several indicators, to indicate a reversal.)

In technical analysis we are dealing in probabilities, never certainties.

First trade 50% loss! ???????

	Capital	Profit/Loss %	Profit/Loss Amount	Ending
Trade 1	100	(50)	(50)	50
Trade 1	50	50	25	75
Trade 1	75	10	75	82.5
Trade 1	82.5	10	83	90.8
Trade 1	90.8	10	9.1	99.9

Next trade 50% gain ???????

	Capital	Profit/Loss %	Profit/Loss Amount	Ending
Trade 1	100	(50)	(50)	50
Trade 1	50	50	25	75
Trade 1	75	10	75	82.5
Trade 1	82.5	10	83	90.8
Trade 1	90.8	10	9.1	99.9

???????

Next 3 trades make 10% each

	Capital	Profit/Loss %	Profit/Loss Amount	Ending
Trade 1	100	(50)	(50)	50
Trade 1	50	50	25	75
Trade 1	75	10	75	82.5
Trade 1	82.5	10	83	90.8
Trade 1	90.8	10	9.1	99.9

4 trades trades make 80% ???????

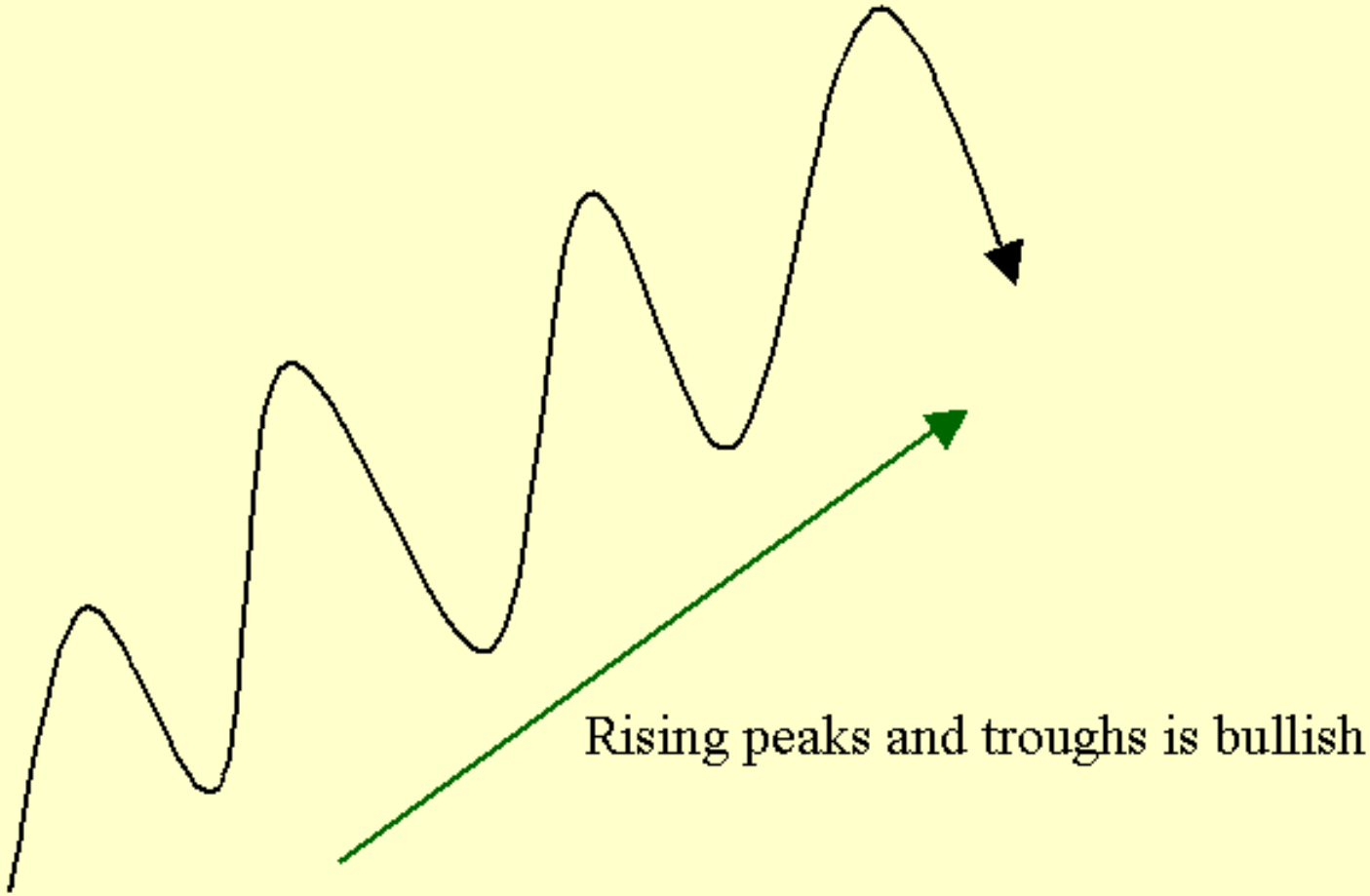
	Capital	Profit/Loss %	Profit/Loss Amount	Ending
Trade 1	100	(50)	(50)	50
Trade 1	50	50	25	75
Trade 1	75	10	75	82.5
Trade 1	82.5	10	83	90.8
Trade 1	90.8	10	9.1	99.9

Still not back to break even??????

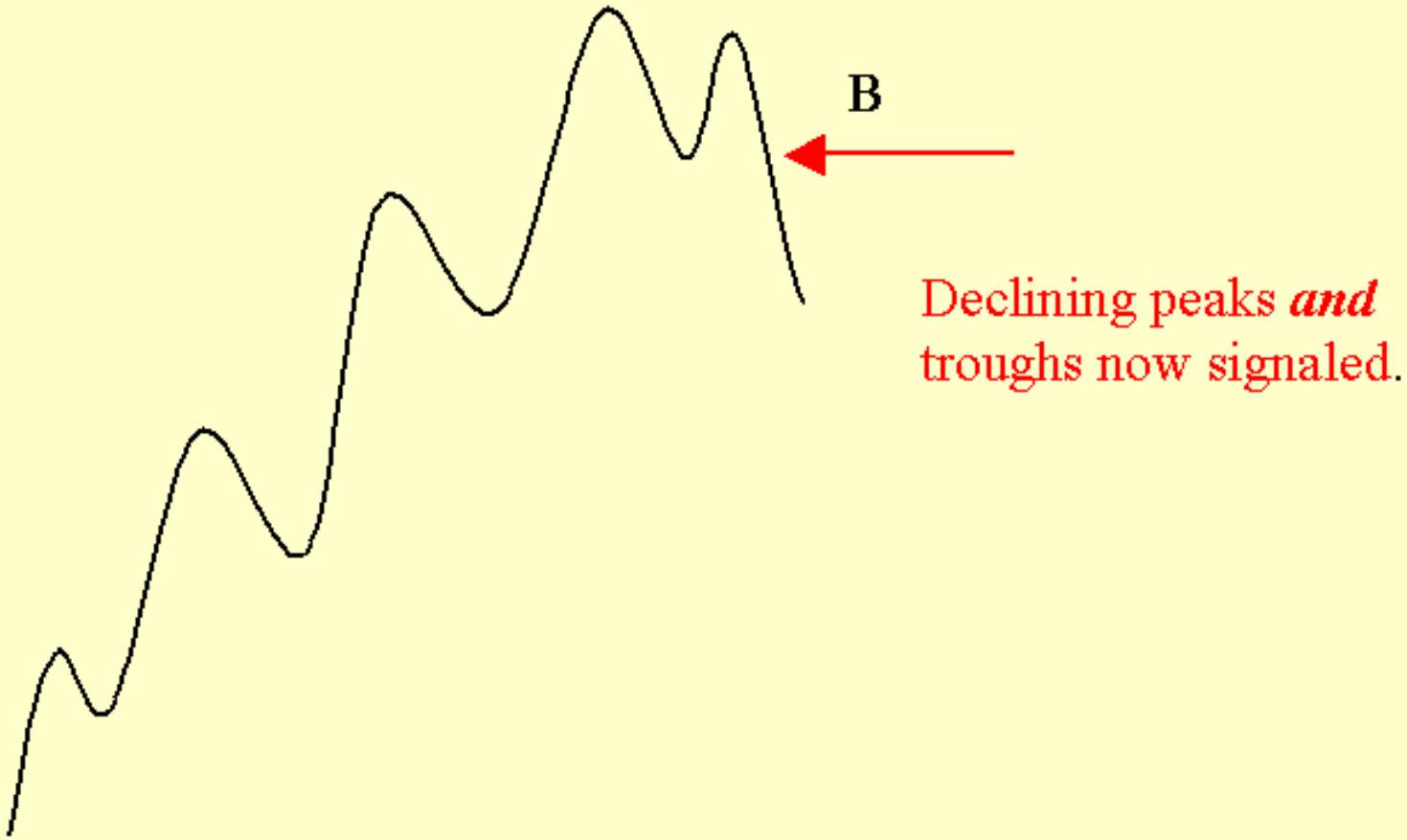
	Capital	Profit/Loss %	Profit/Loss Amount	Ending
Trade 1	100	(50)	(50)	50
Trade 1	50	50	25	75
Trade 1	75	10	75	82.5
Trade 1	82.5	10	83	90.8
Trade 1	90.8	10	9.1	99.9

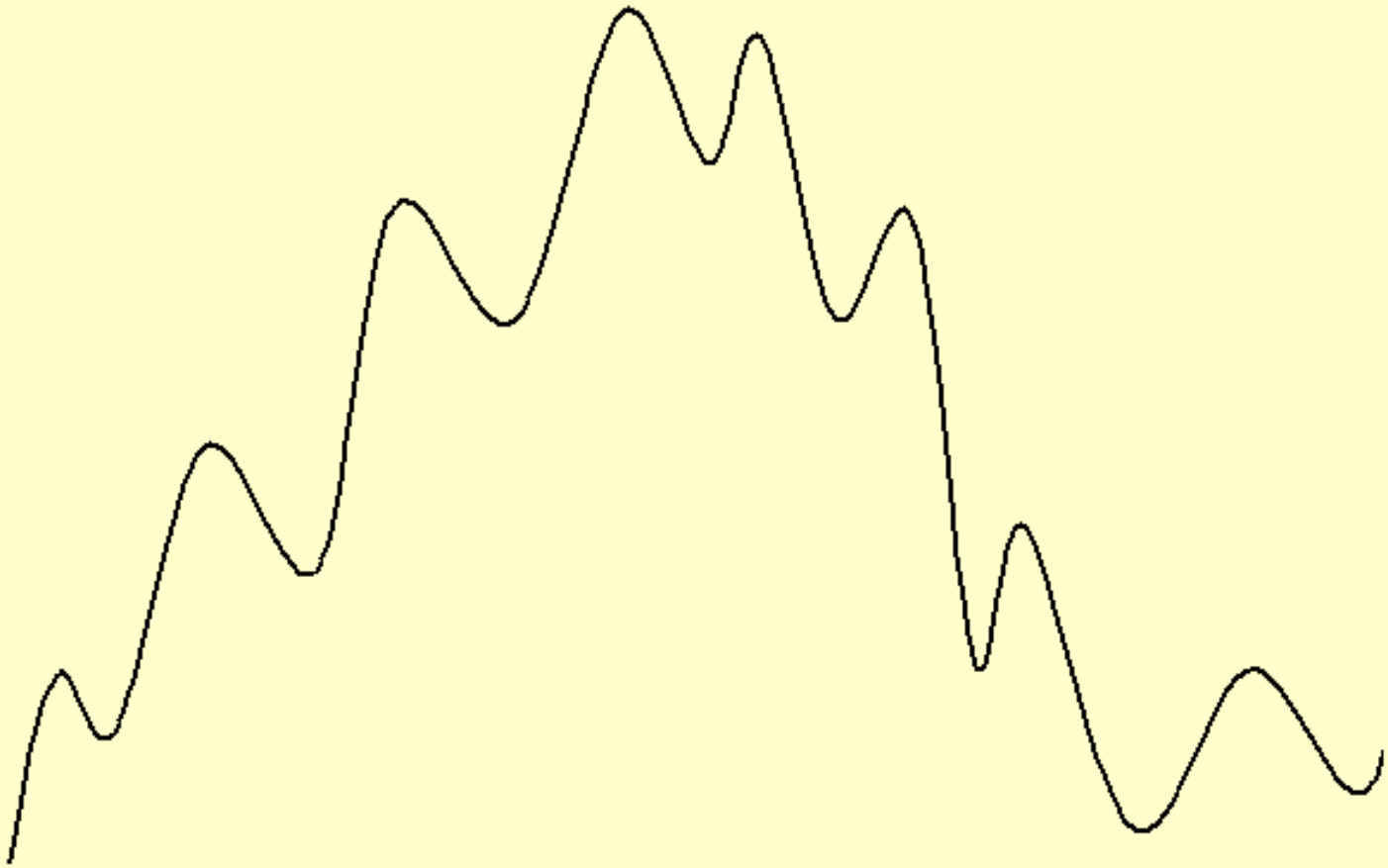
The Indicators

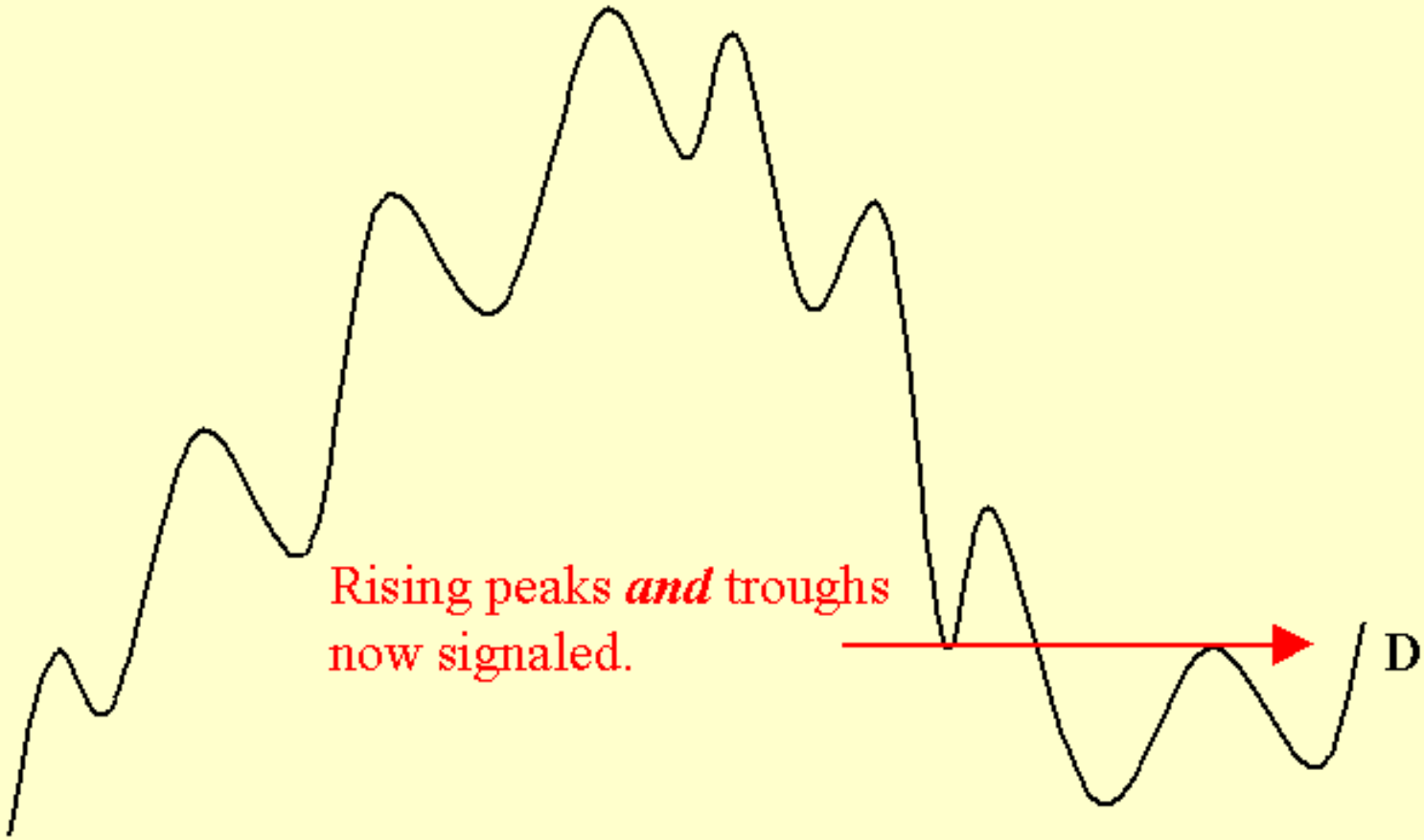
1. Peak and trough analysis

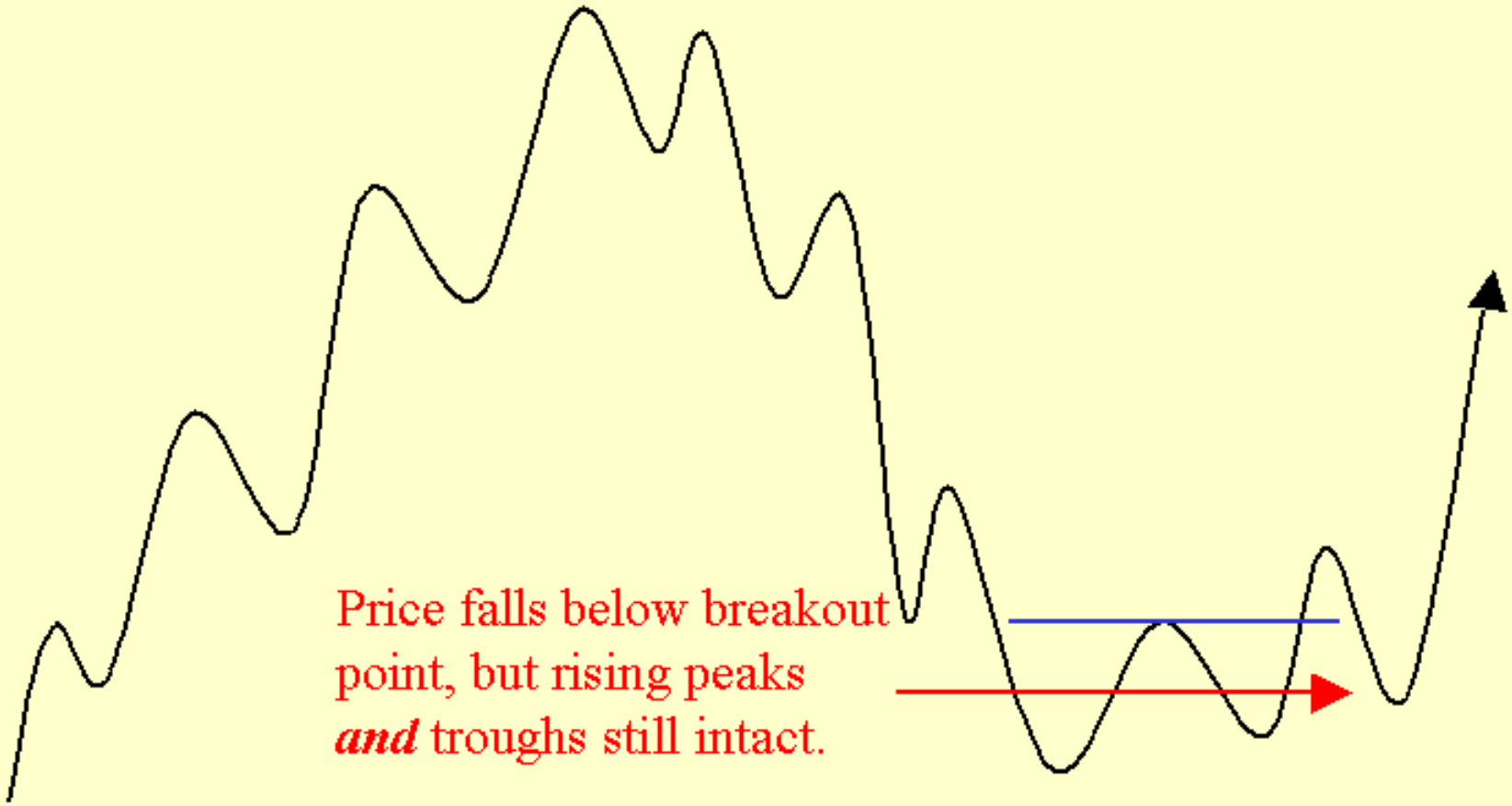

Rising peaks and troughs is bullish

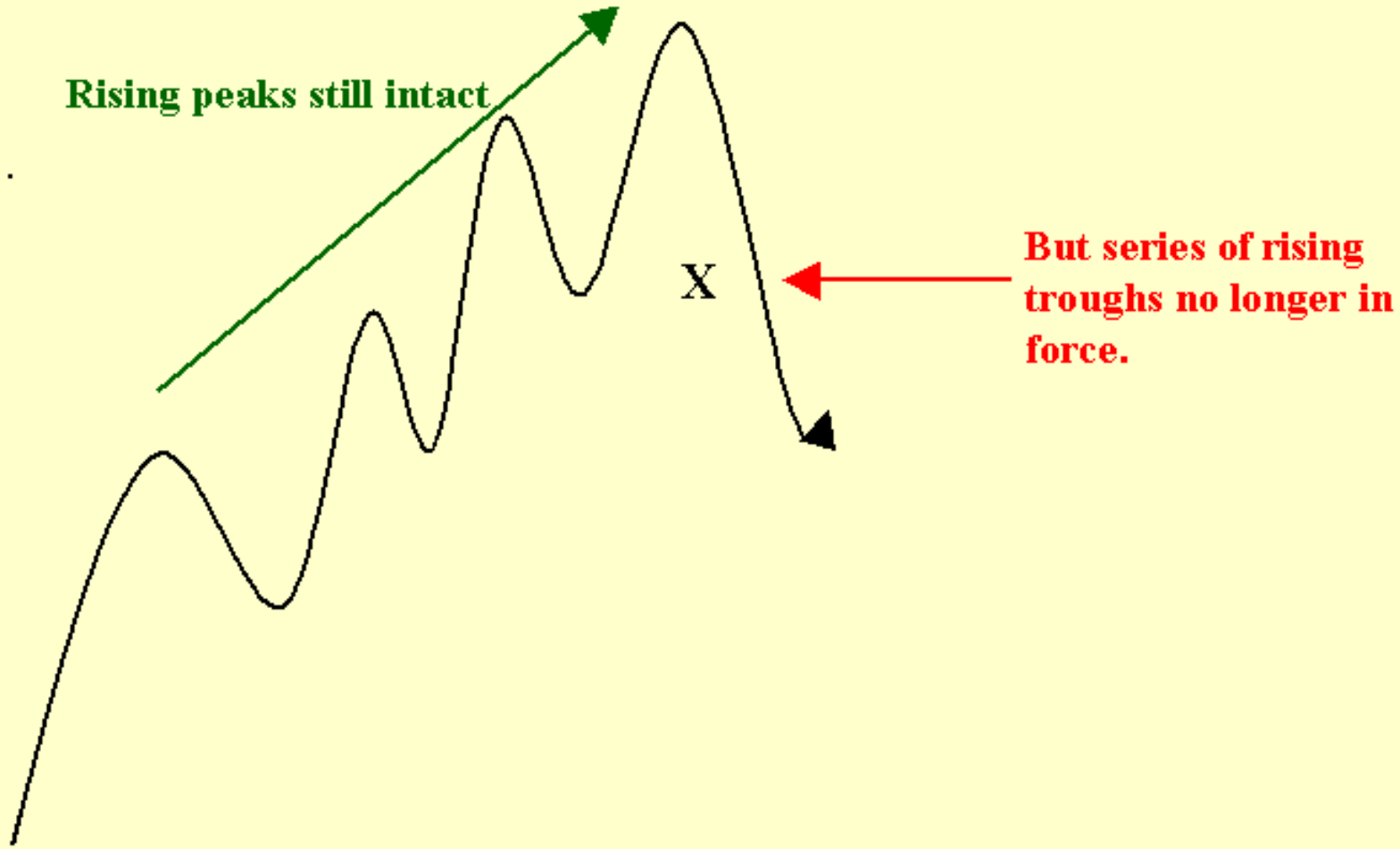
Rally fails to make a new high.

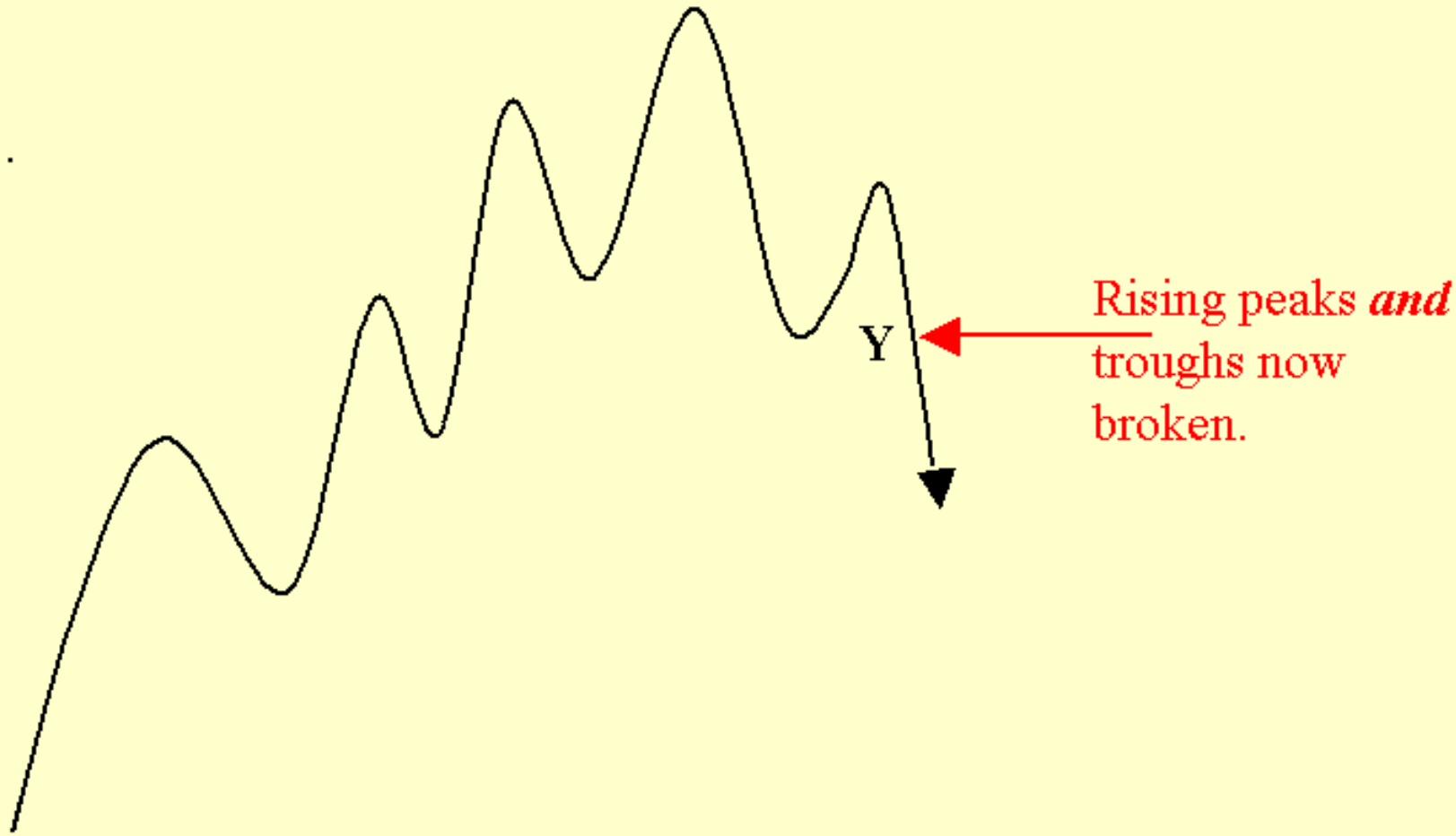

B
Declining peaks *and*
troughs now signaled.

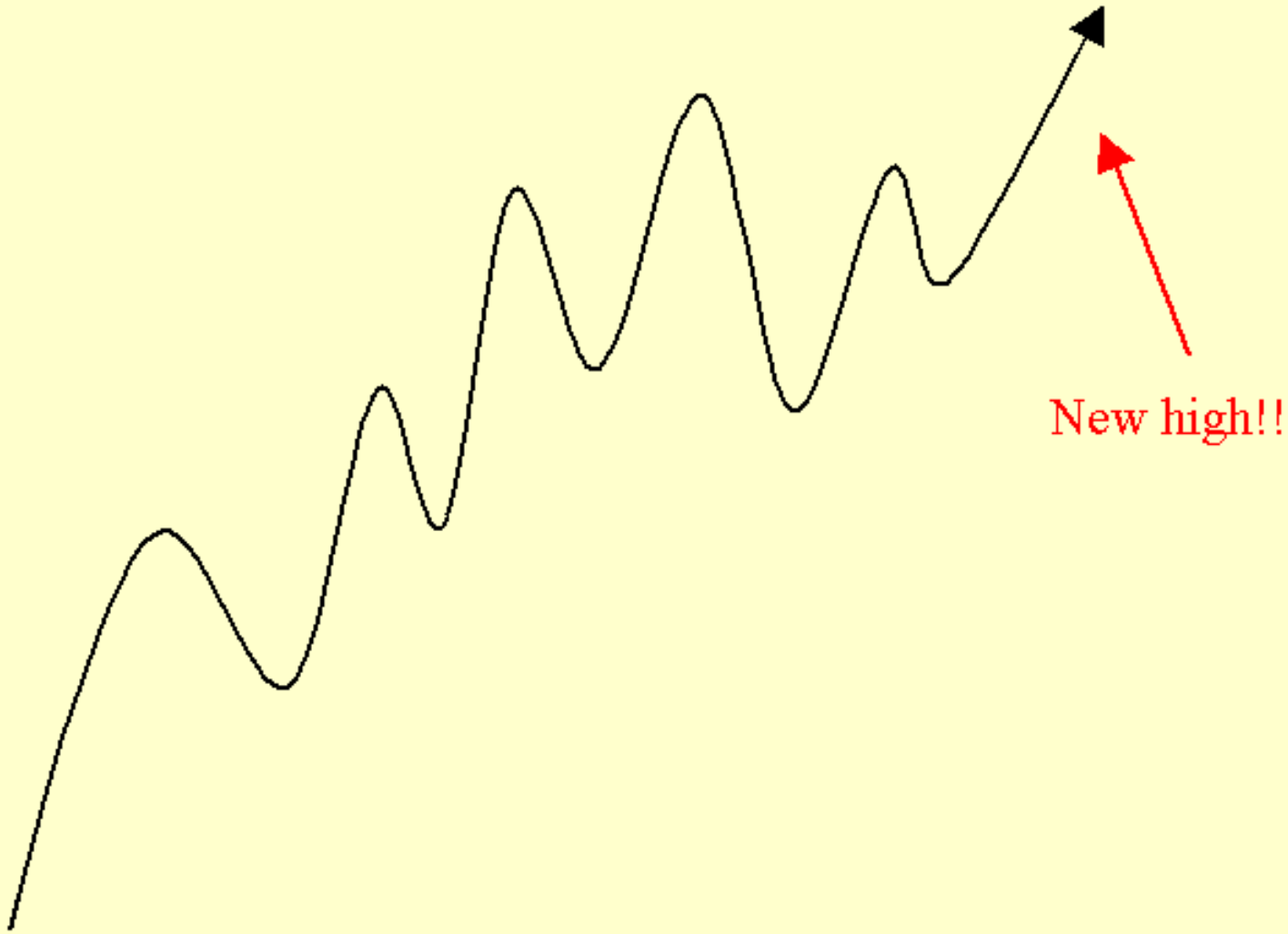



Rising peaks *and* troughs
now signaled.
D

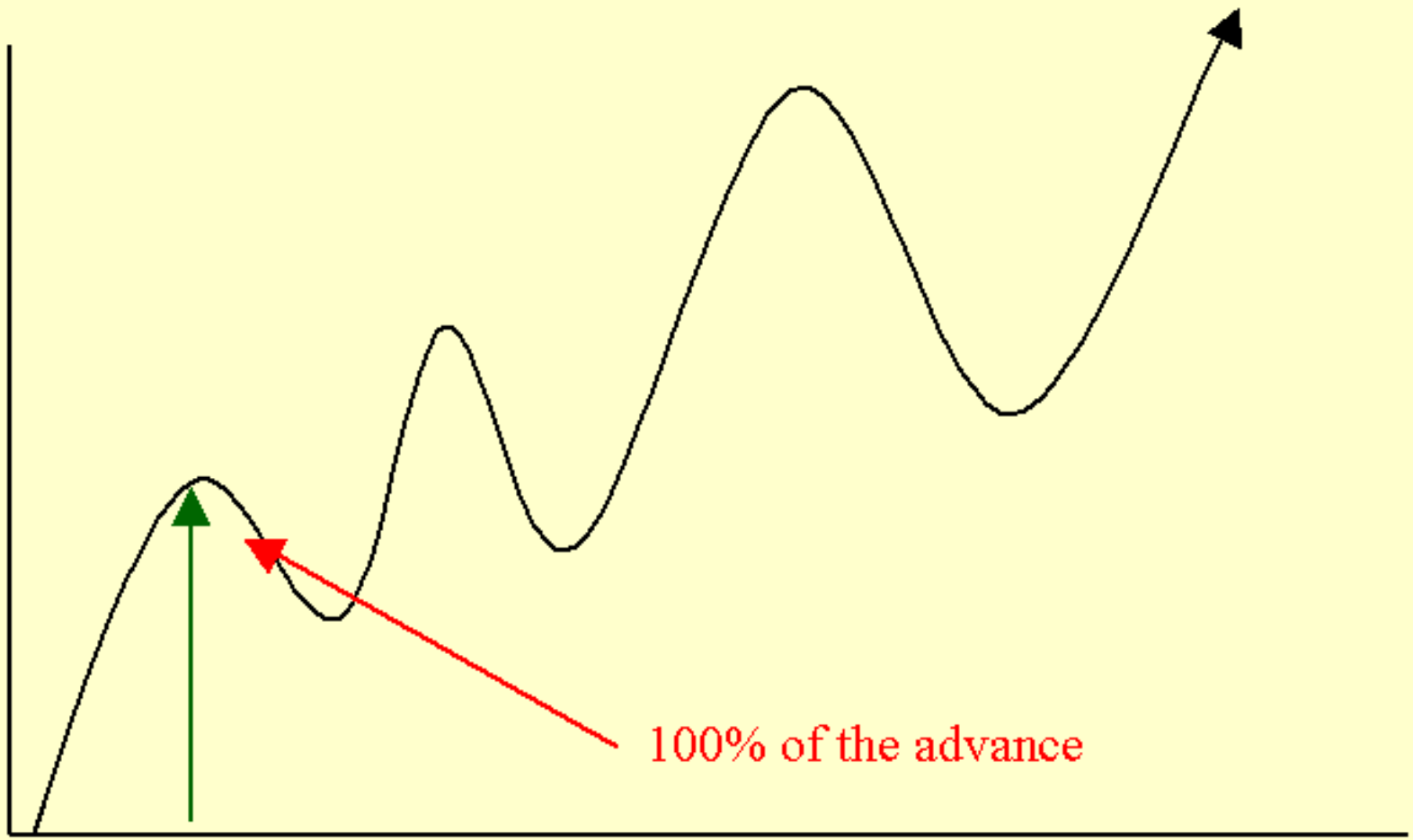

Price falls below breakout point, but rising peaks ***and*** troughs still intact.

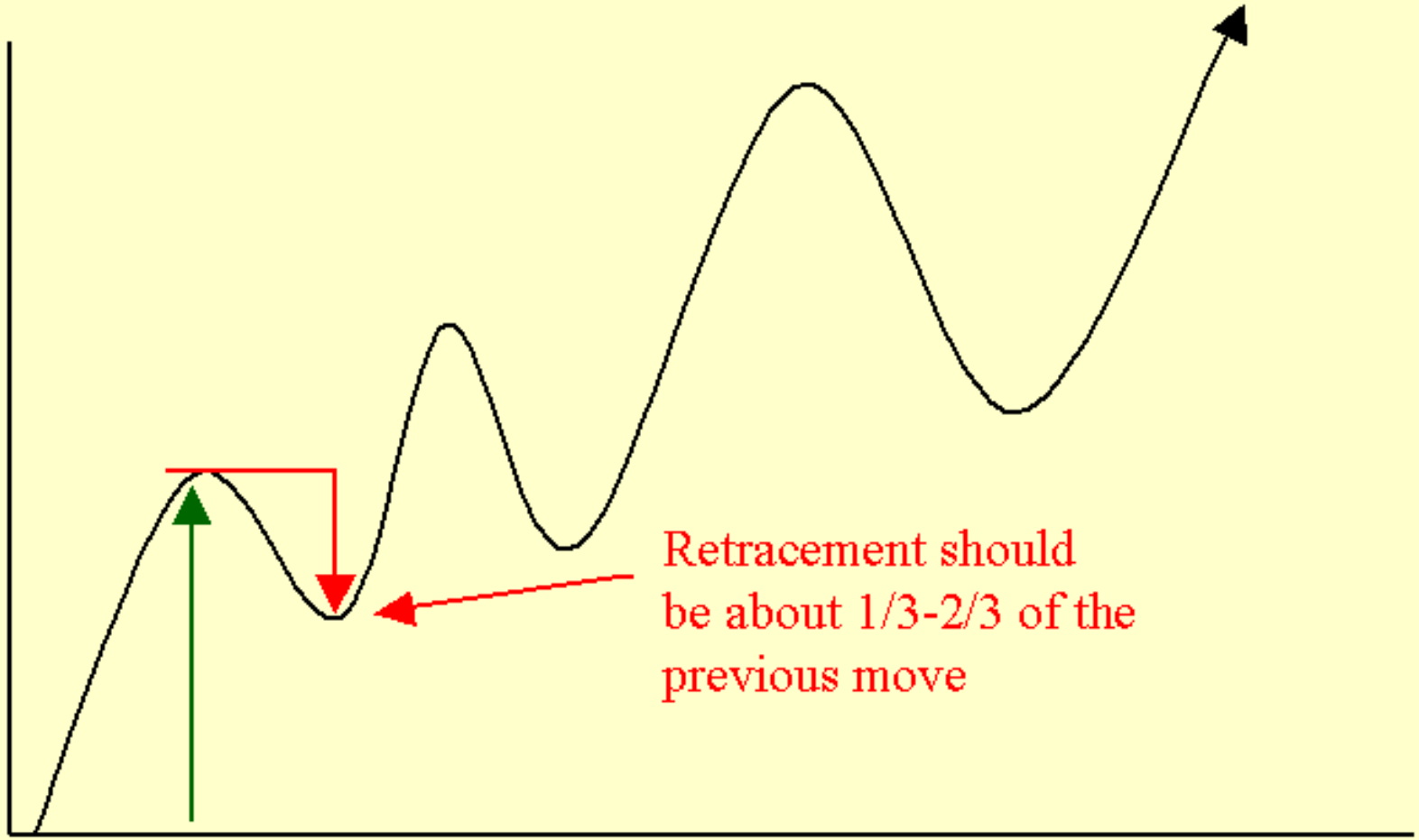

Rising peaks still intact
X
But series of rising troughs no longer in force.

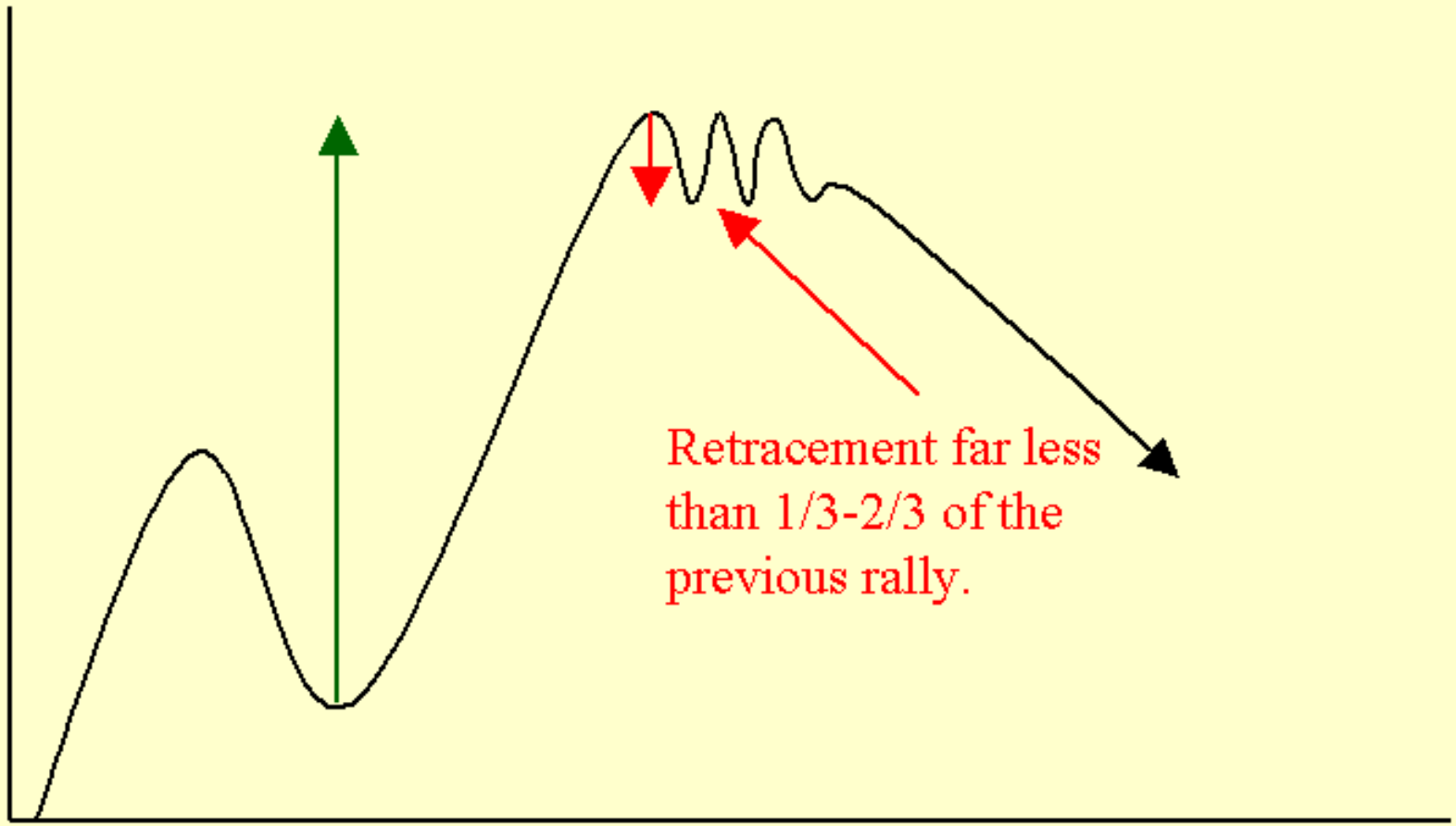

Y
Rising peaks *and* troughs now broken.

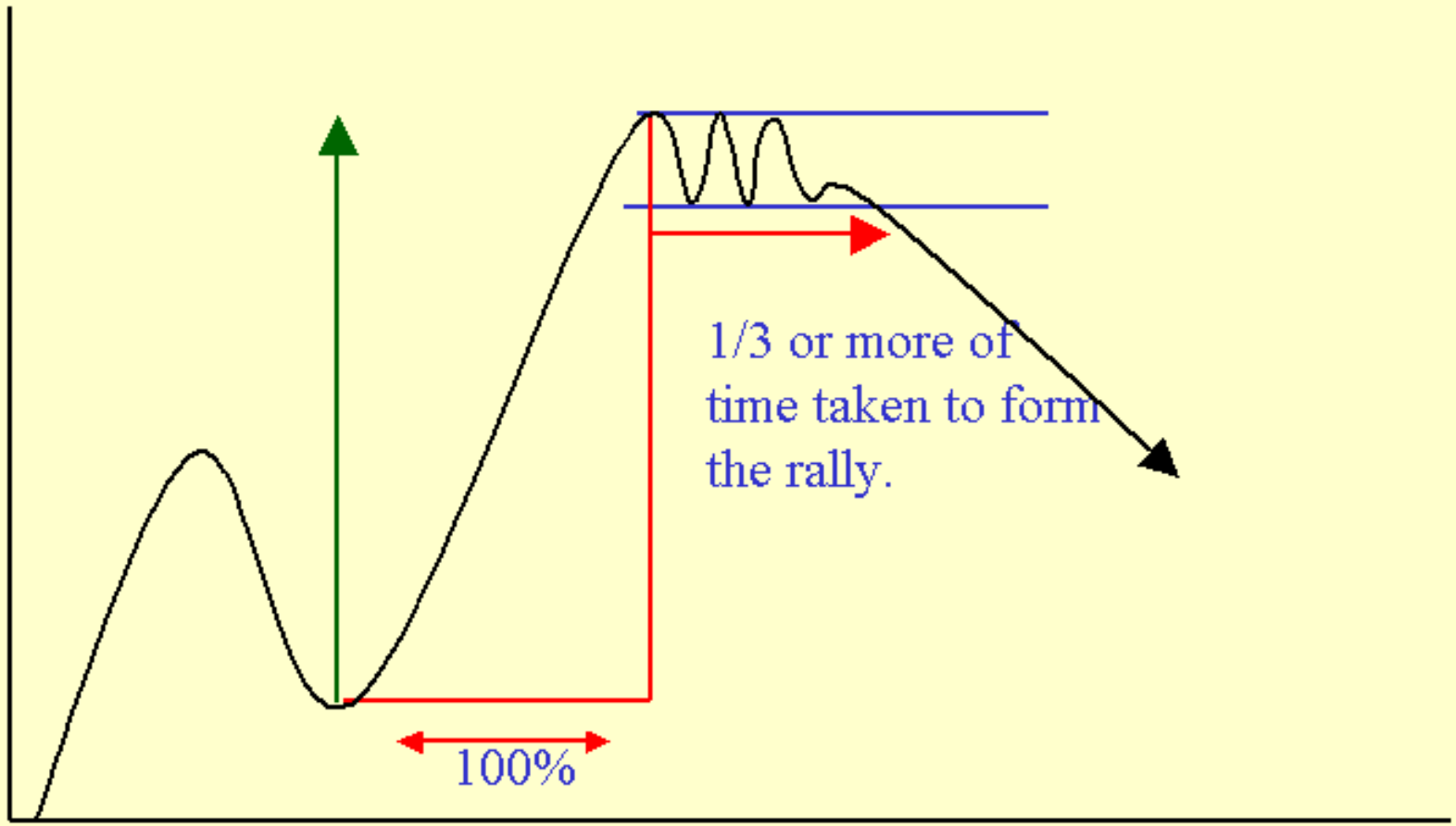

New high!!

What constitutes a legitimate peak or trough?

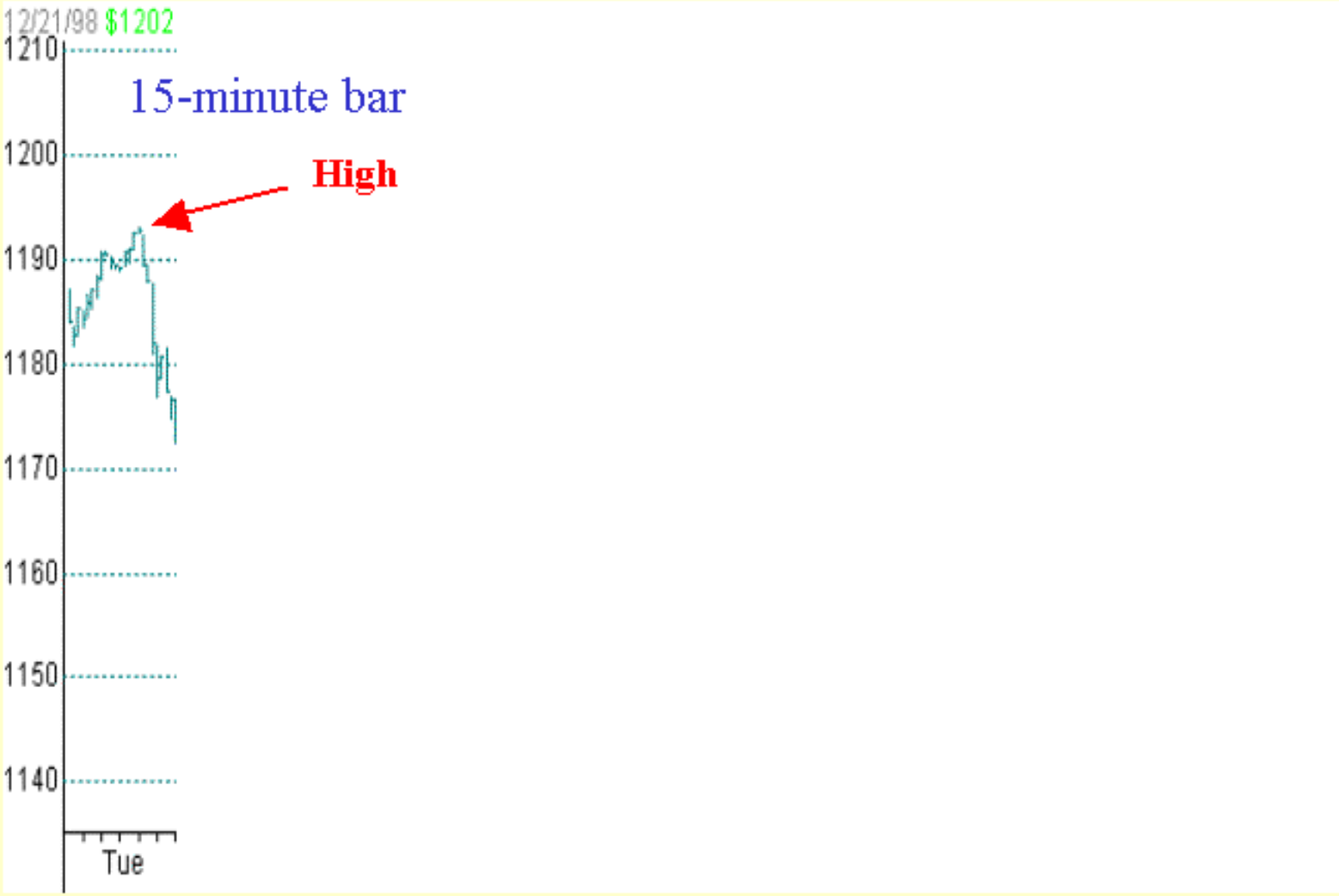

100% of the advance


Retracement should
be about 1/3-2/3 of the
previous move


Retracement far less
than 1/3-2/3 of the
previous rally.

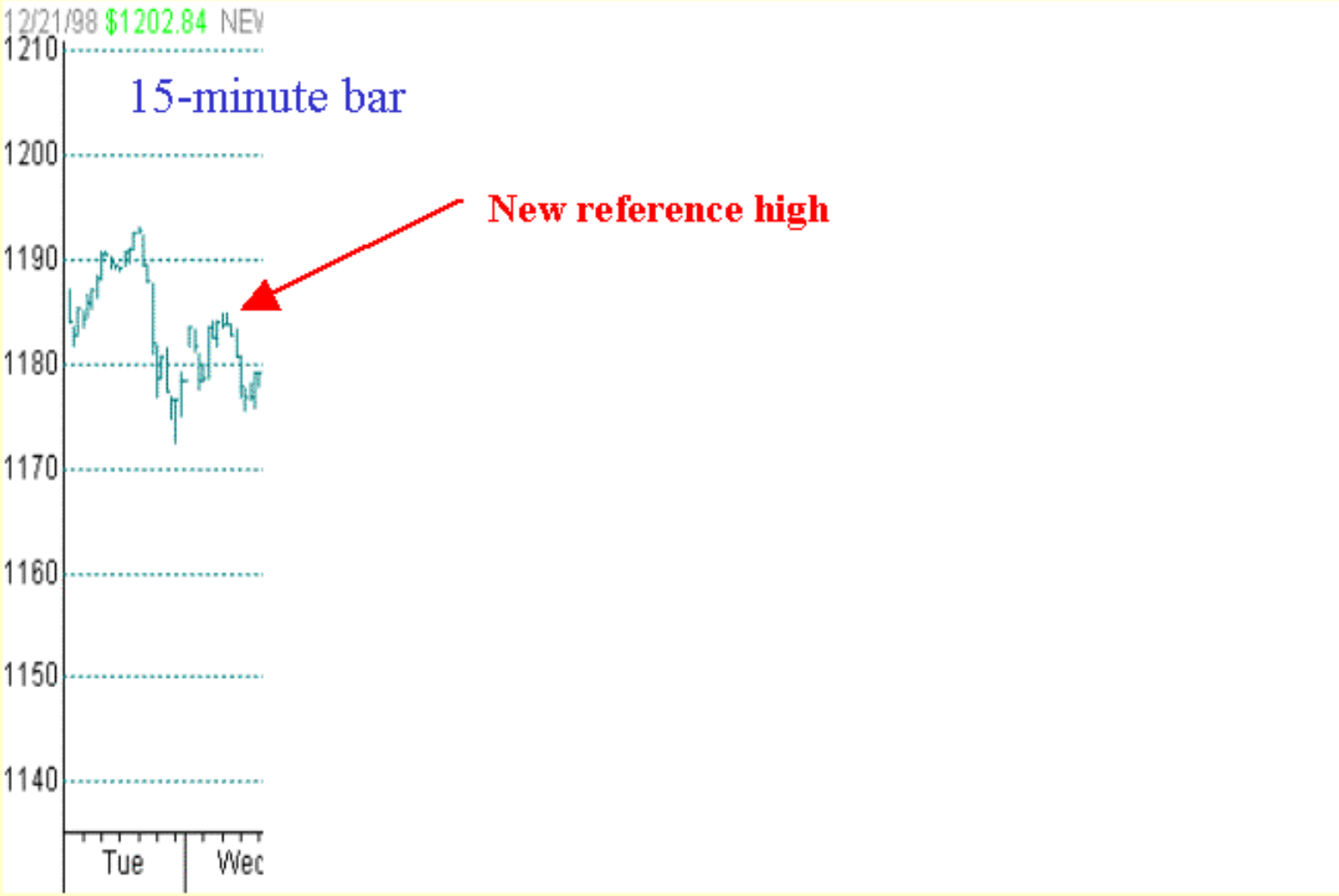

1/3 or more of
time taken to form
the rally.
100%

S&P Composite



S&P Composite

S&P Composite



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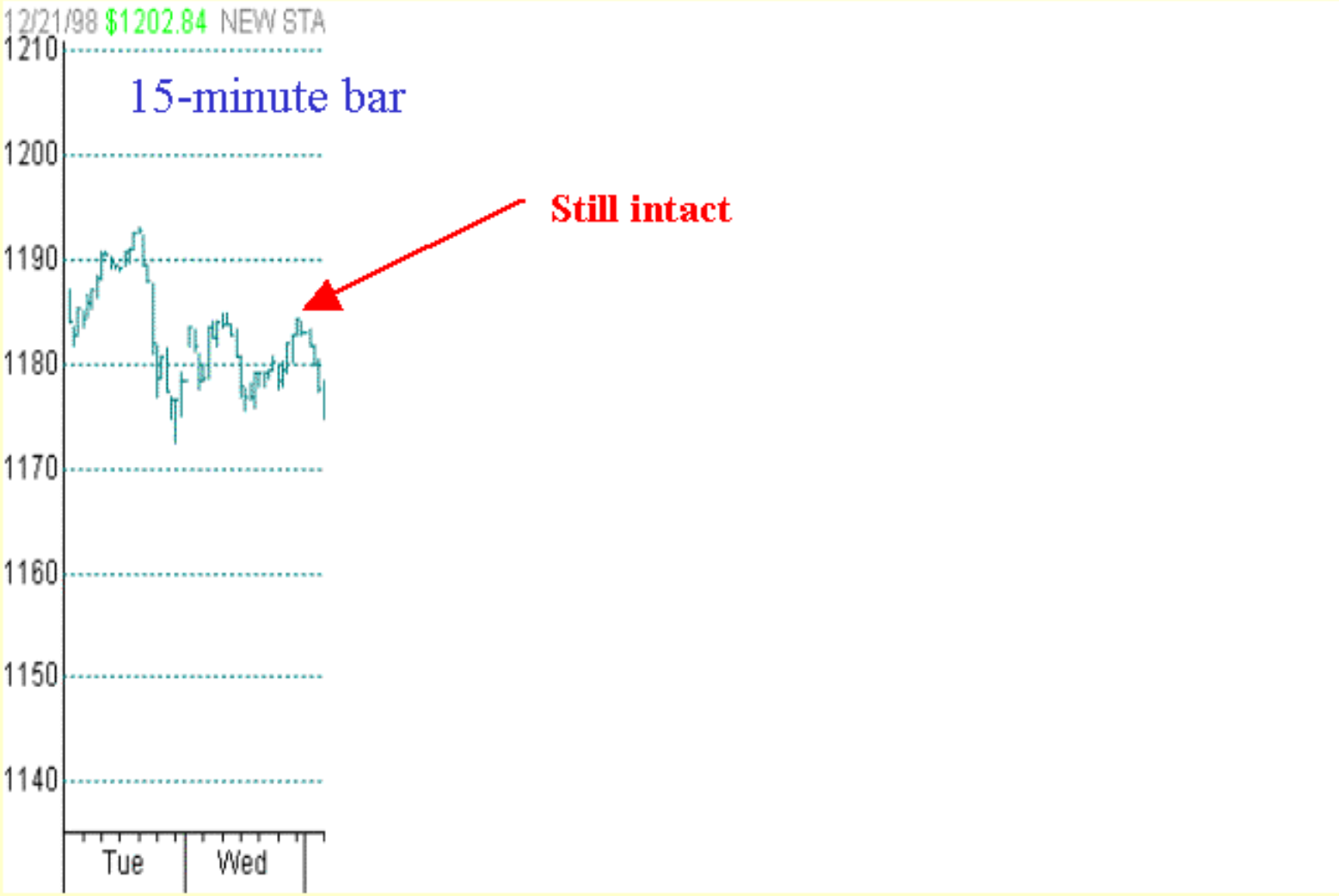
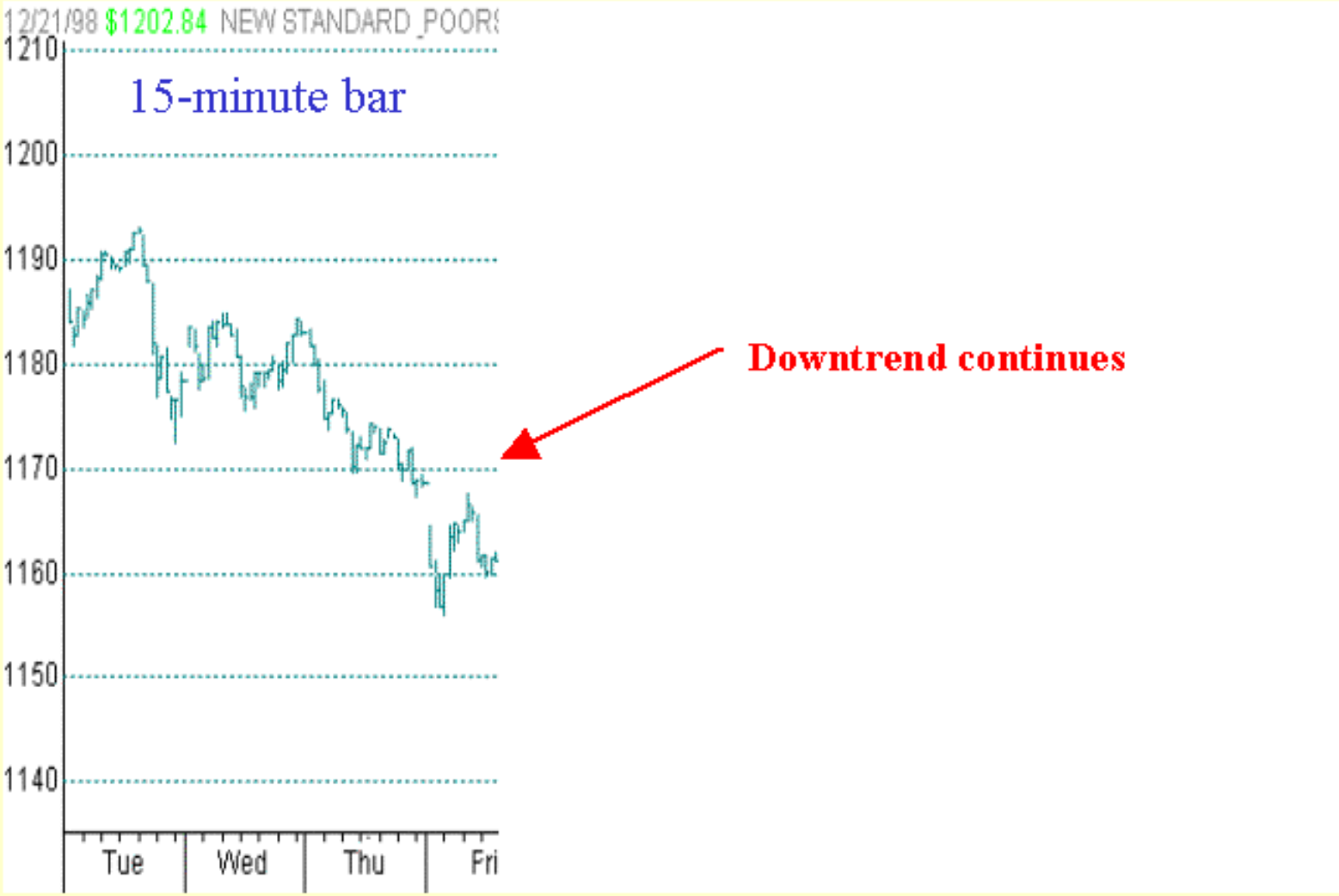


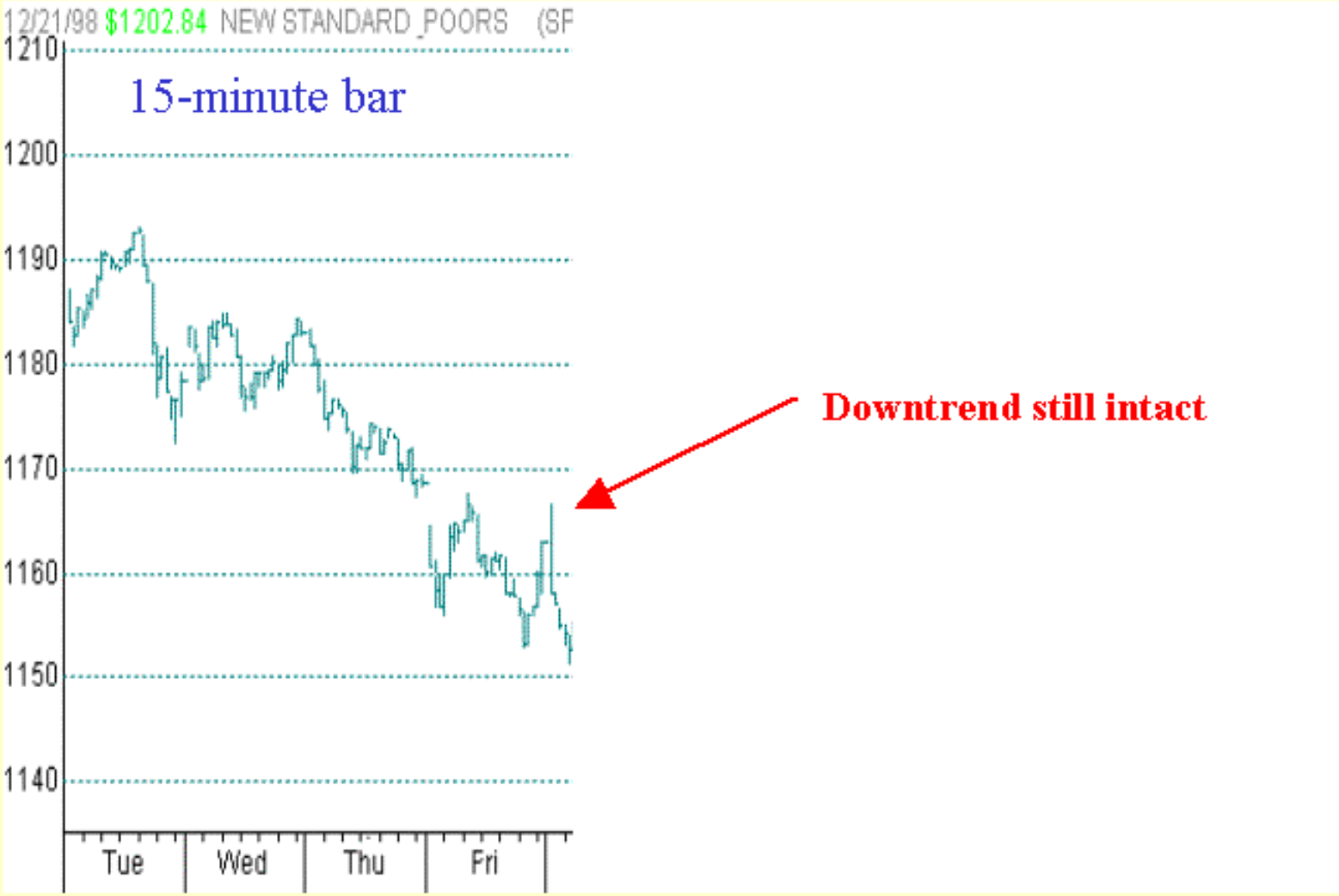
S&P Composite

S&P Composite



S&P Composite

S&P Composite

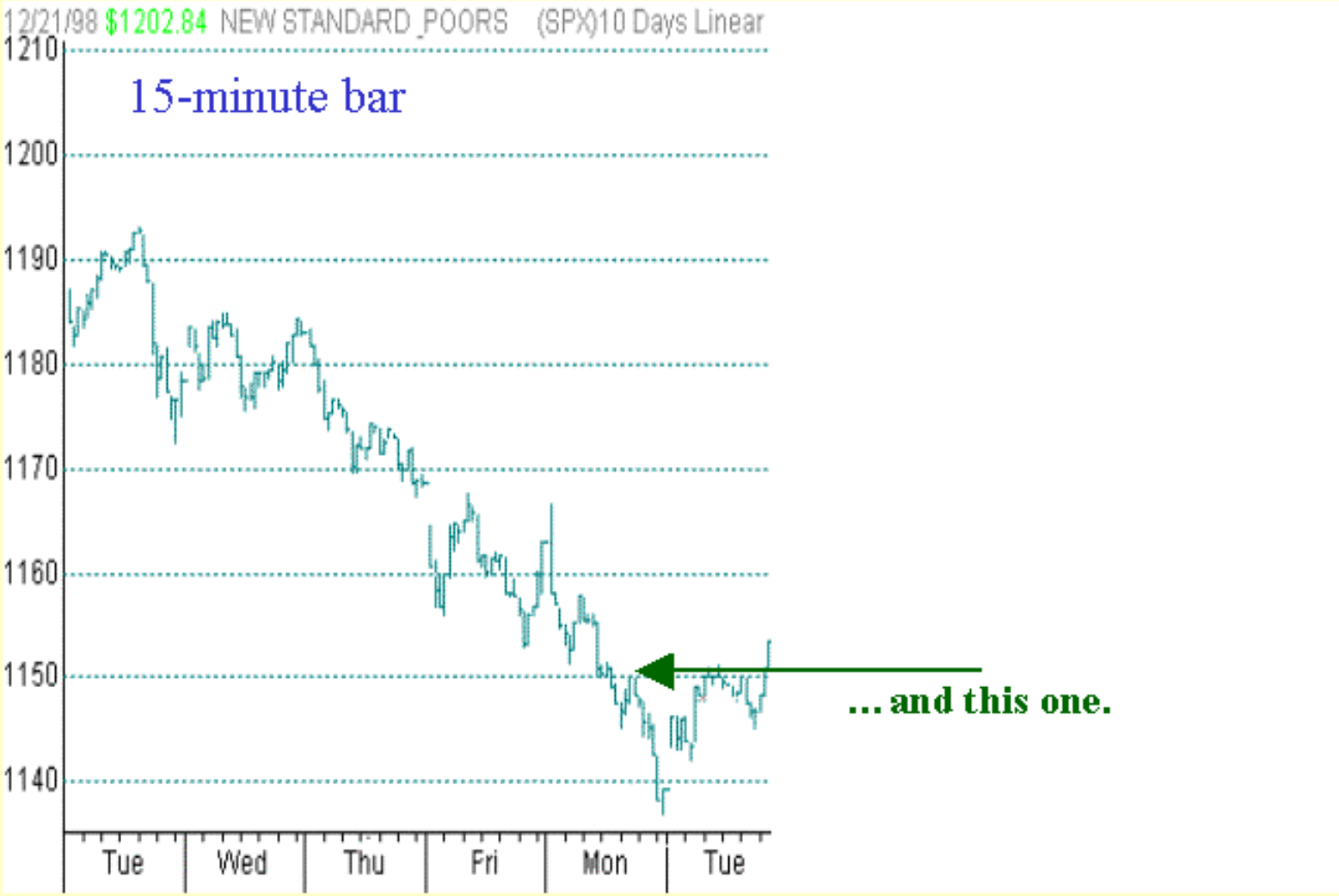


S&P Composite

S&P Composite

S&P Composite

S&P Composite



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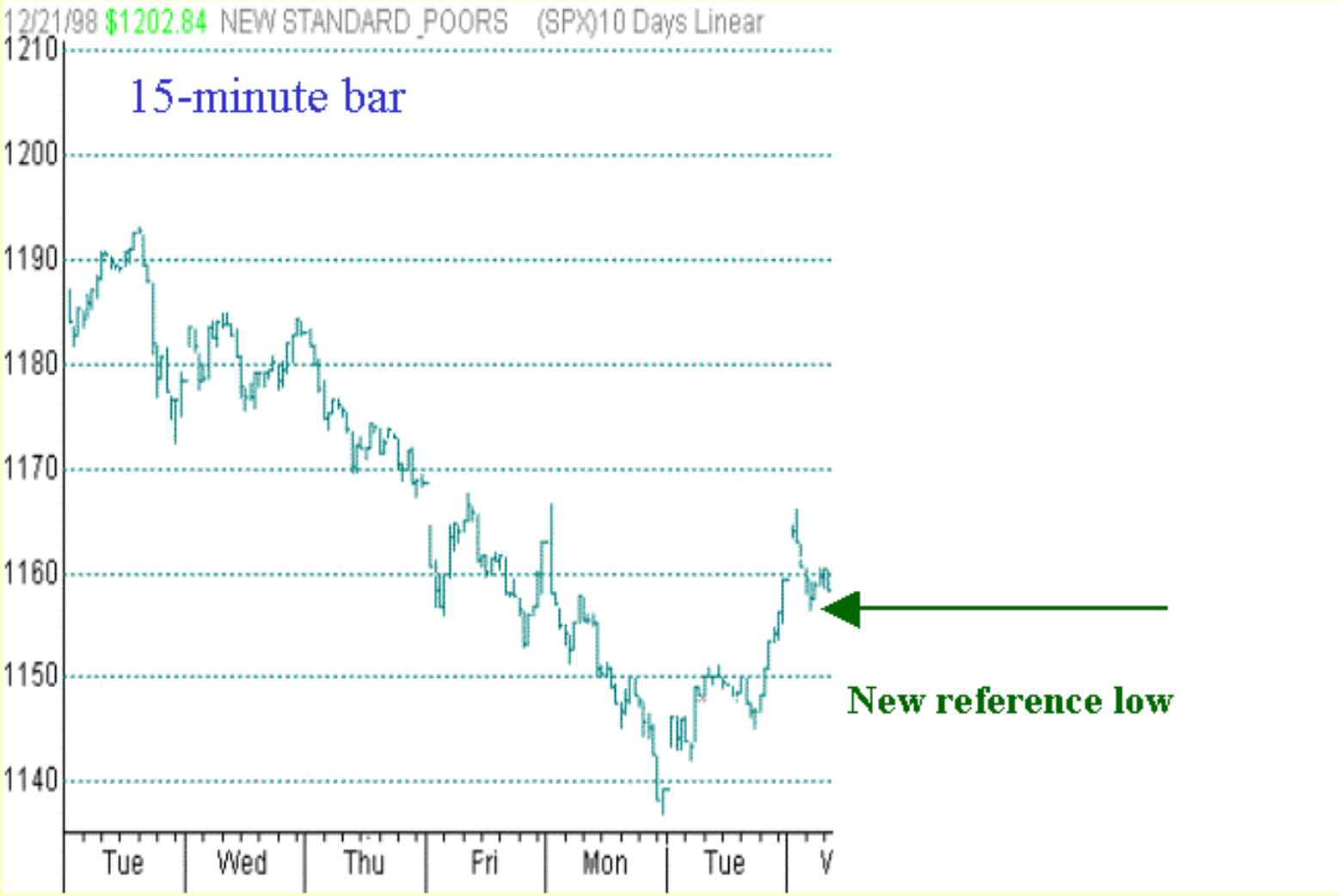


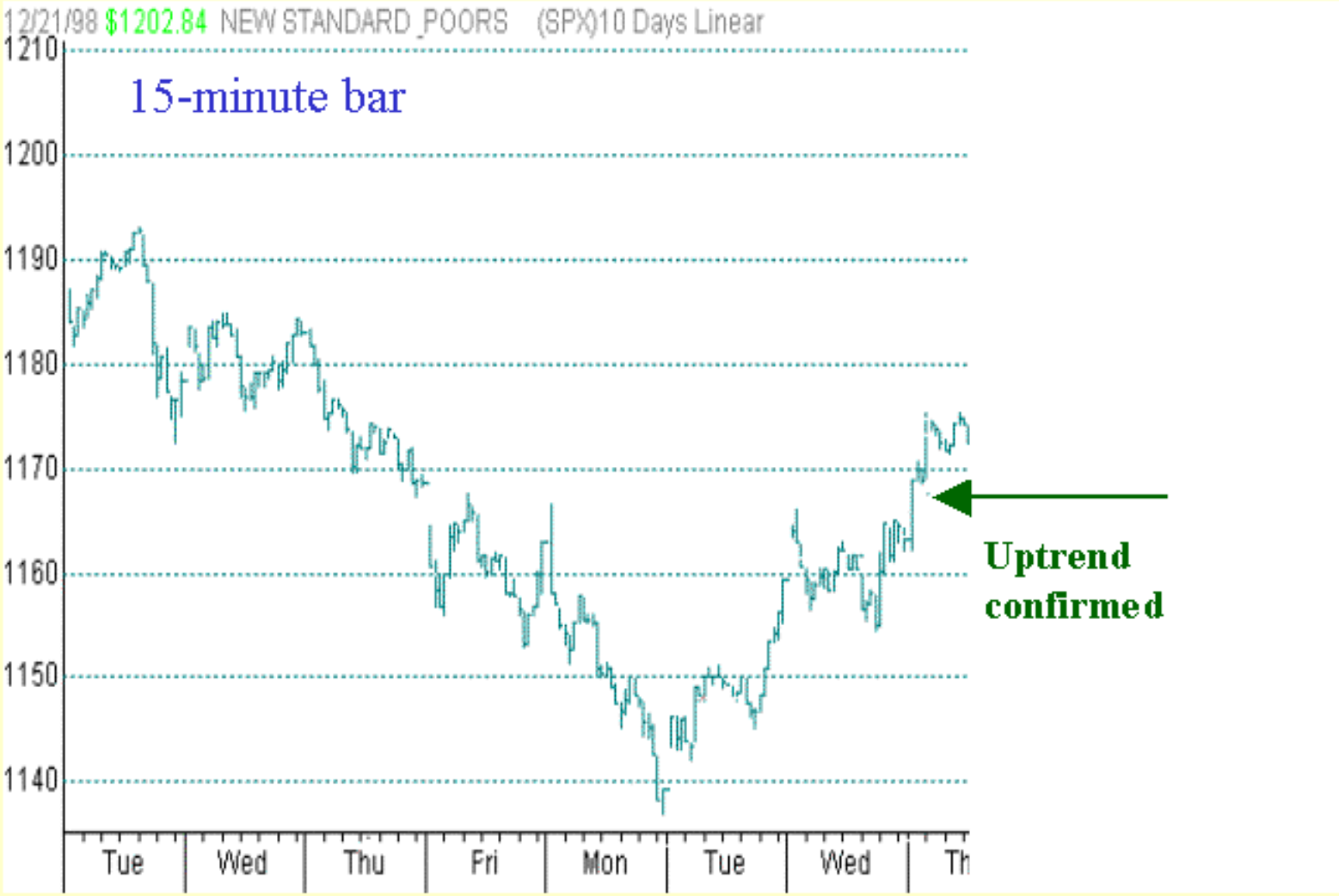
S&P Composite

S&P Composite

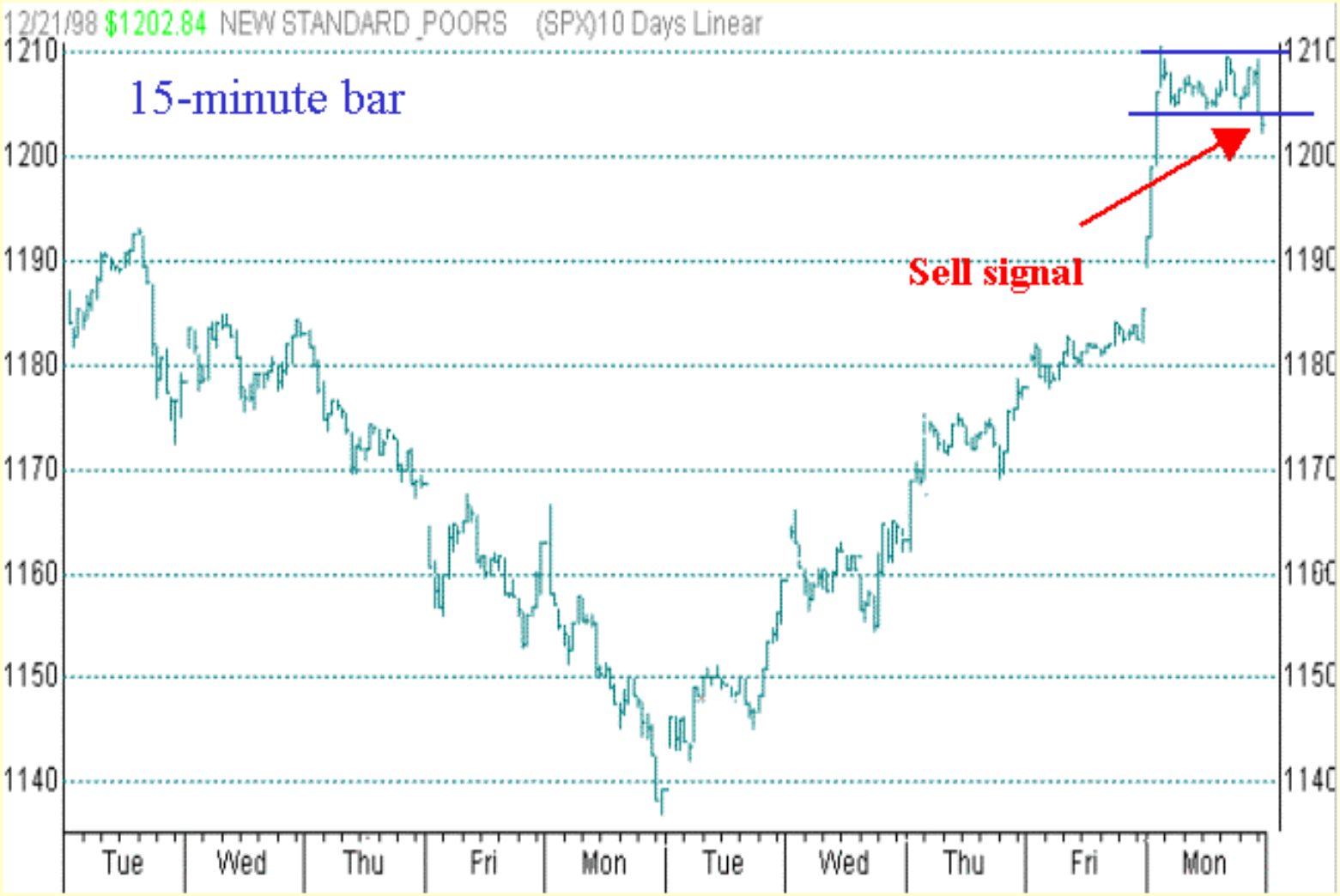
S&P Composite

S&P Composite

S&P Composite



S&P Composite



Microsoft

12/21/98 $140.43 MICROSOFT CORP (MSFT)10 Days Line
141
138
135
132
129
15-minute close
Clear-cut break
Volume - max: 2196
2196
1750
1250
750
Tue
Wed
Thu
Fri
Mon

Microsoft

12/21/98 $140.43 MICROSOFT CORP (MSFT)10 Days Line
141
138
135
132
129
15-minute close
Clear-cut break
Volume - max: 2196
2196
1750
1250
750
Tue
Wed
Thu
Fri
Mon

Microsoft

12/21/98 $140.43 MICROSOFT CORP (MSFT)10 Days Linear
141
138
135
132
129
15-minute close
Volume - max: 2196
2196
1750
1250
750
Tue
Wed
Thu
Fri
Mon
Selling climax

Microsoft

12/21/98 $140.43 MICROSOFT CORP (MSFT)10 Days Linear
141
138
135
132
129
15-minute close
Crucial level
Volume - max: 2196
2196
1750
1250
750
Tue
Wed
Thu
Fri
Mon
Tue

Microsoft

12/21/98 $140.43 MICROSOFT CORP (MSFT)10 Days Linear
141
138
135
132
129
15-minute close
Breakout
Volume - max: 2196
2196
1750
1250
750
Tue
Wed
Thu
Fri
Mon
Tue

Microsoft

12/21/98 $140.43 MICROSOFT CORP (MSFT)10 Days Linear
141
138
135
132
129
15-minute close
New reference low
Volume - max: 2196
2196
1750
1250
750
Tue
Wed
Thu
Fri
Mon
Tue

Microsoft

12/21/98 $140.43 MICROSOFT CORP (MSFT)10 Days Linear
141
138
135
132
129
15-minute close
Volume - max: 2196
2196
1750
1250
750
Tue
Wed
Thu
Fri
Mon
Tue
Wed
Sell signal

Microsoft

12/21/98 $140.43 MICROSOFT CORP (MSFT)10 Days Linear
141
138
135
132
129
15-minute close
Reference high
Volume - max: 2196
2196
1750
1250
750
Tue
Wed
Thu
Fri
Mon
Tue
Wed

Microsoft

12/21/98 $140.43 MICROSOFT CORP (MSFT)10 Days Linear
141
138
135
132
129
15-minute close
Volume - max: 2196
2196
1750
1250
750
Tue
Wed
Thu
Fri
Mon
Tue
Wed
Breakout on good volume.

Microsoft

12/21/98 $140.43 MICROSOFT CORP (MSFT)10 Days Linear
15-minute close
141
138
135
132
129
Volume - max: 2196
2196
1750
1250
750
Tue
Wed
Thu
Fri
Mon
Tue
Wed
Thu
Fri
Mon

One and Two Bar Price Patterns

All one and two bar price patterns must be preceded by a short-term up or down trend.

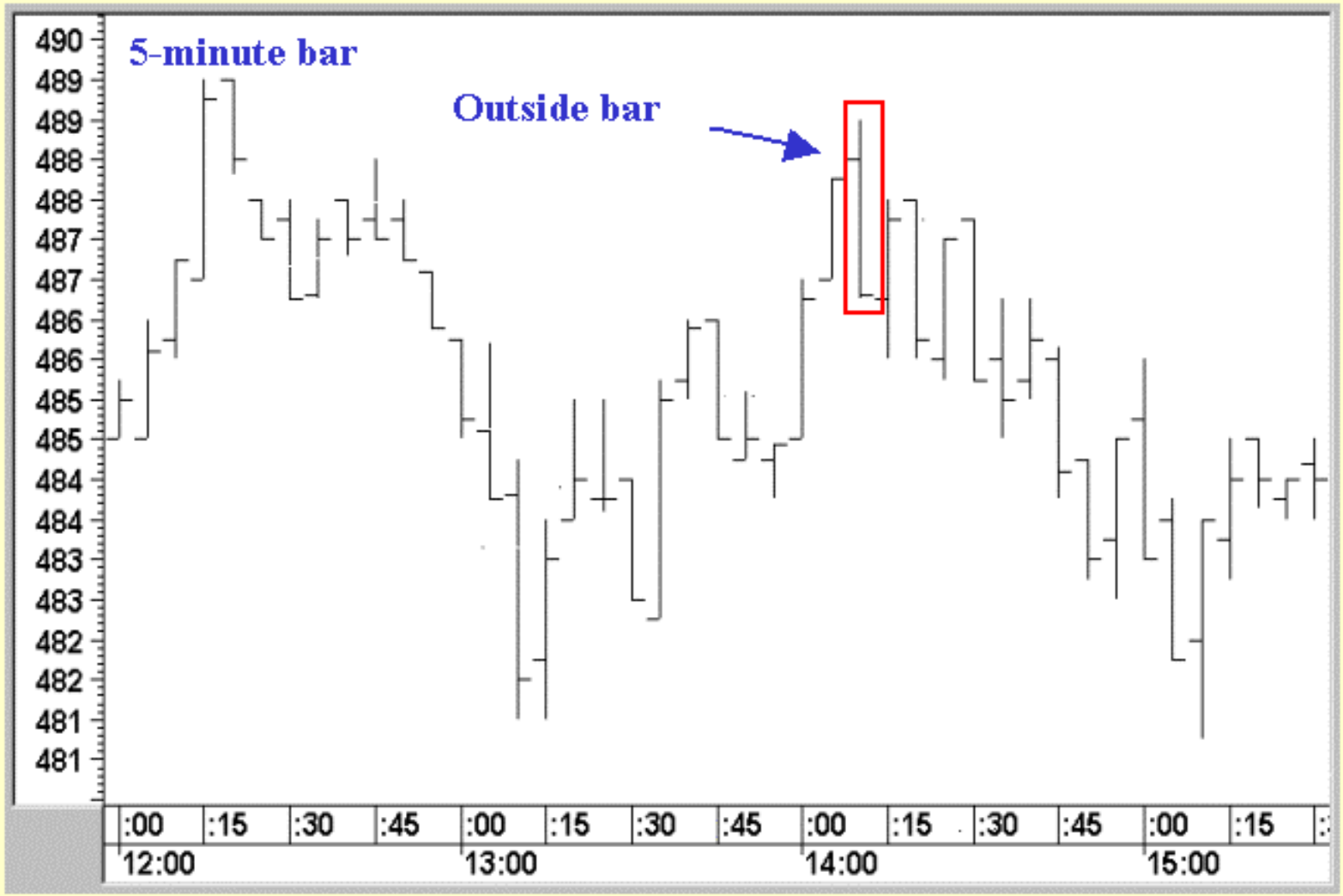
One and two bar patterns are usually short-term reversal phenomena.

These patterns indicate exhaustion, where market psychology has reached a short-term extreme.

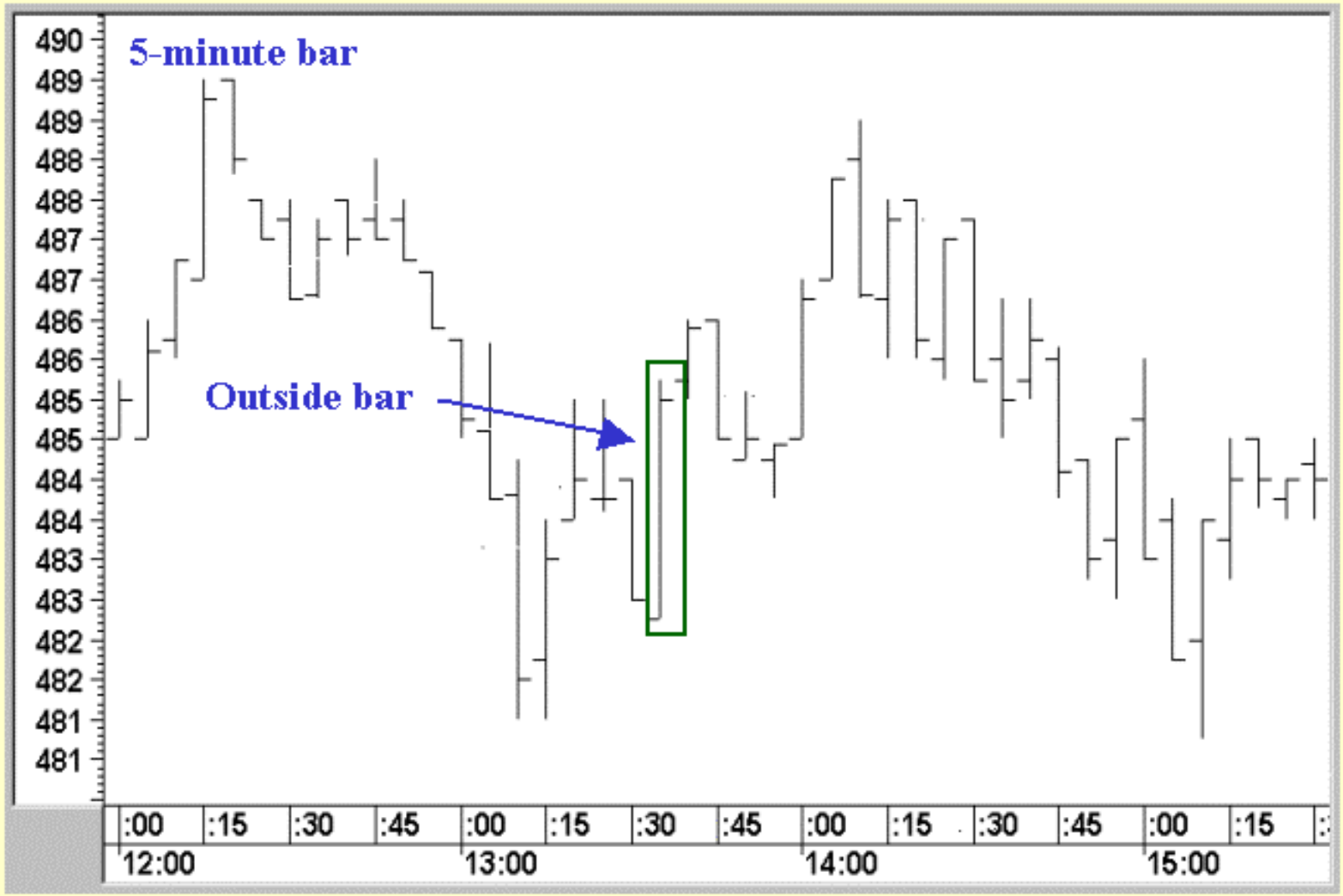
Outside bars

Outside bars are reversal patterns that indicate a change in sentiment.

S&P Composite



S&P Composite



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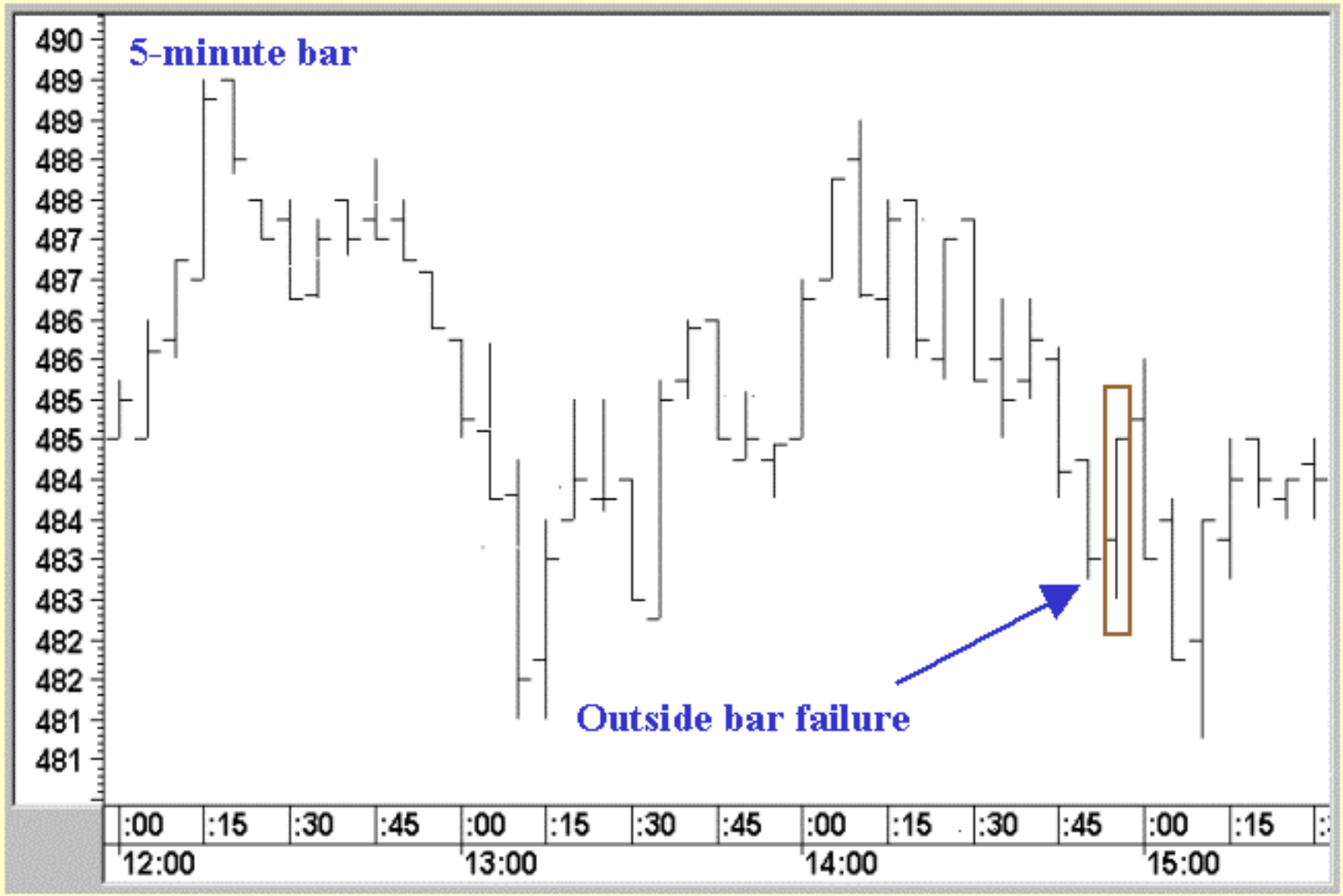

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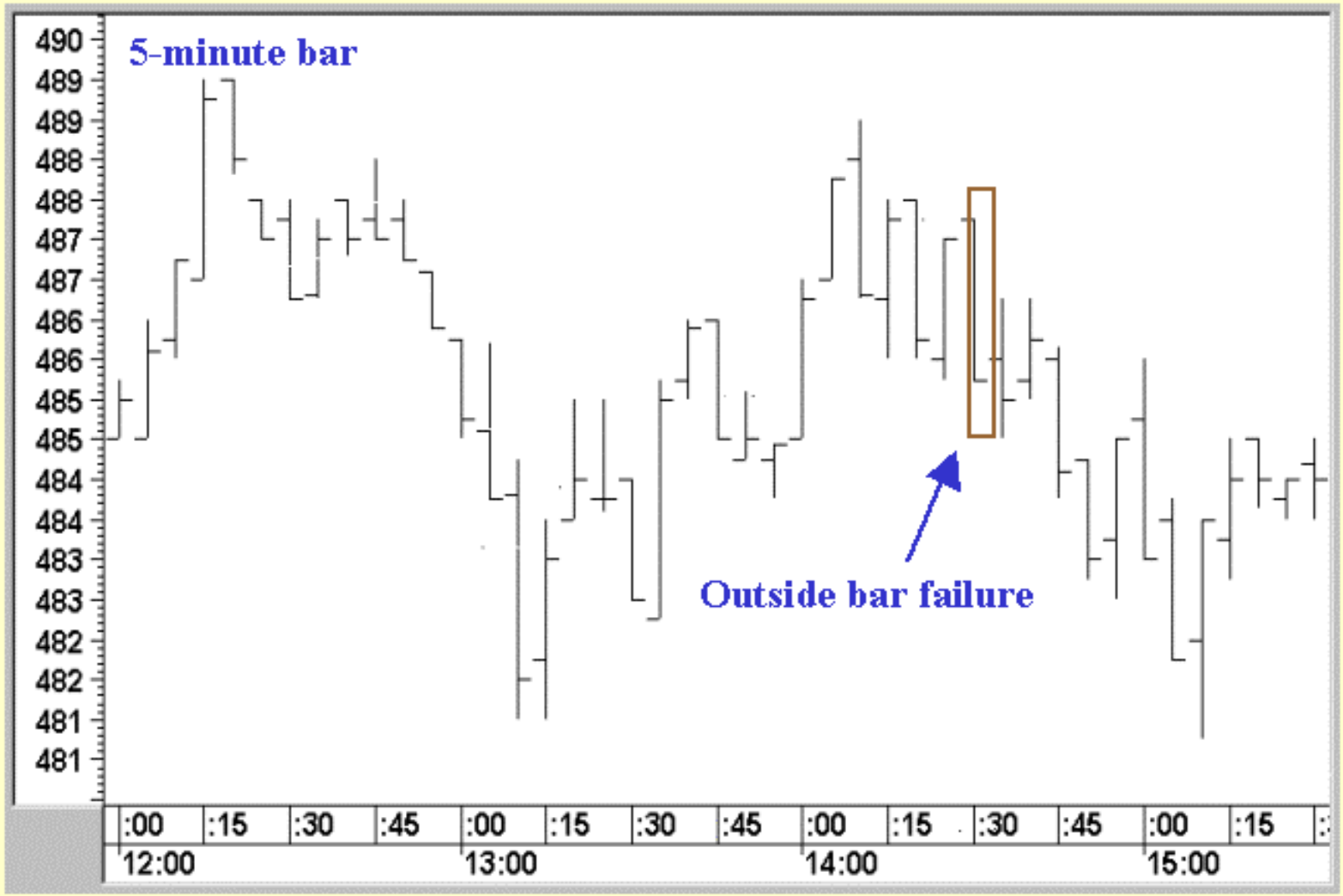
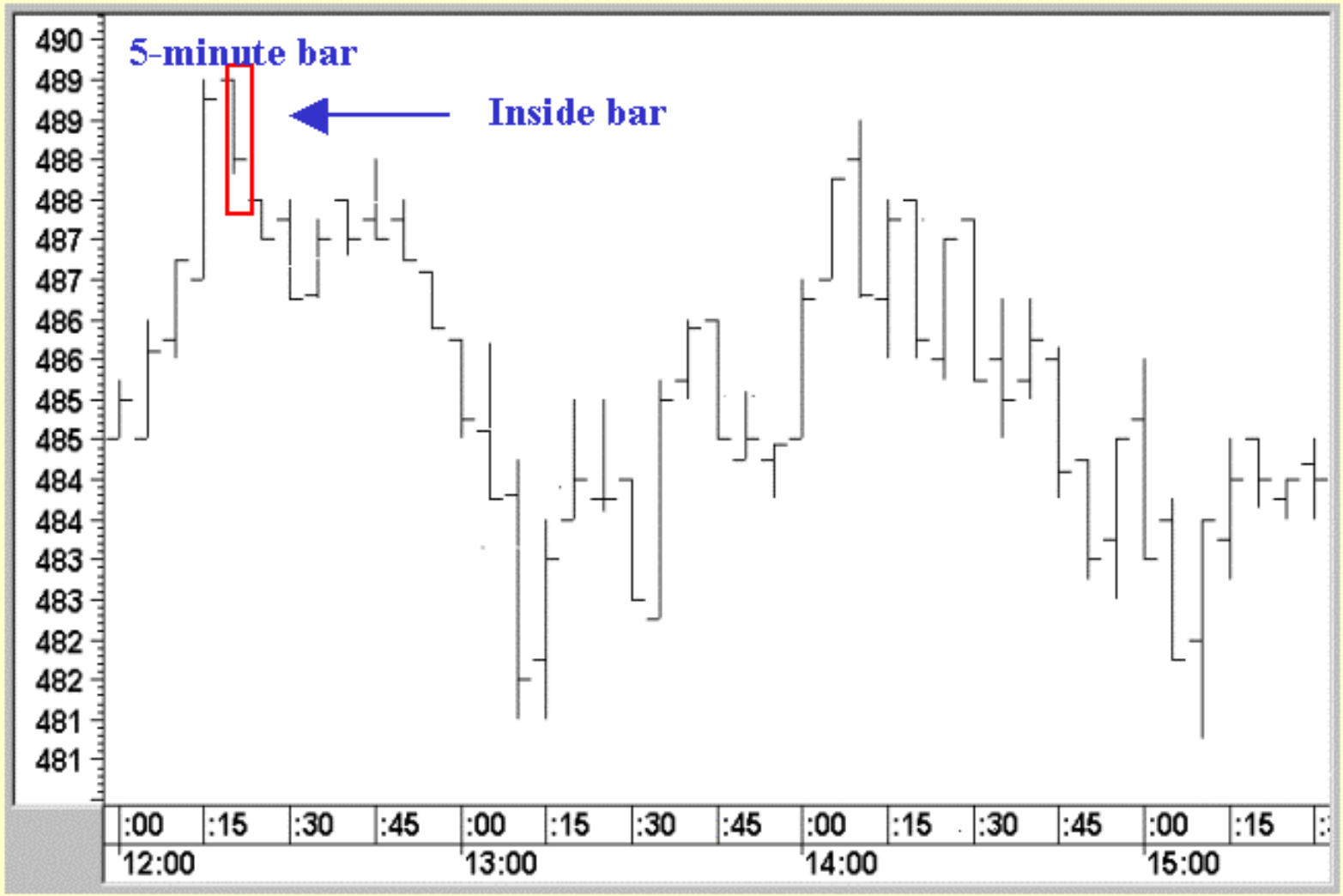


Inside Bars

Inside bars indicate that prevailing momentum has dissipated because buyers and sellers are now equally matched..

S&P Composite



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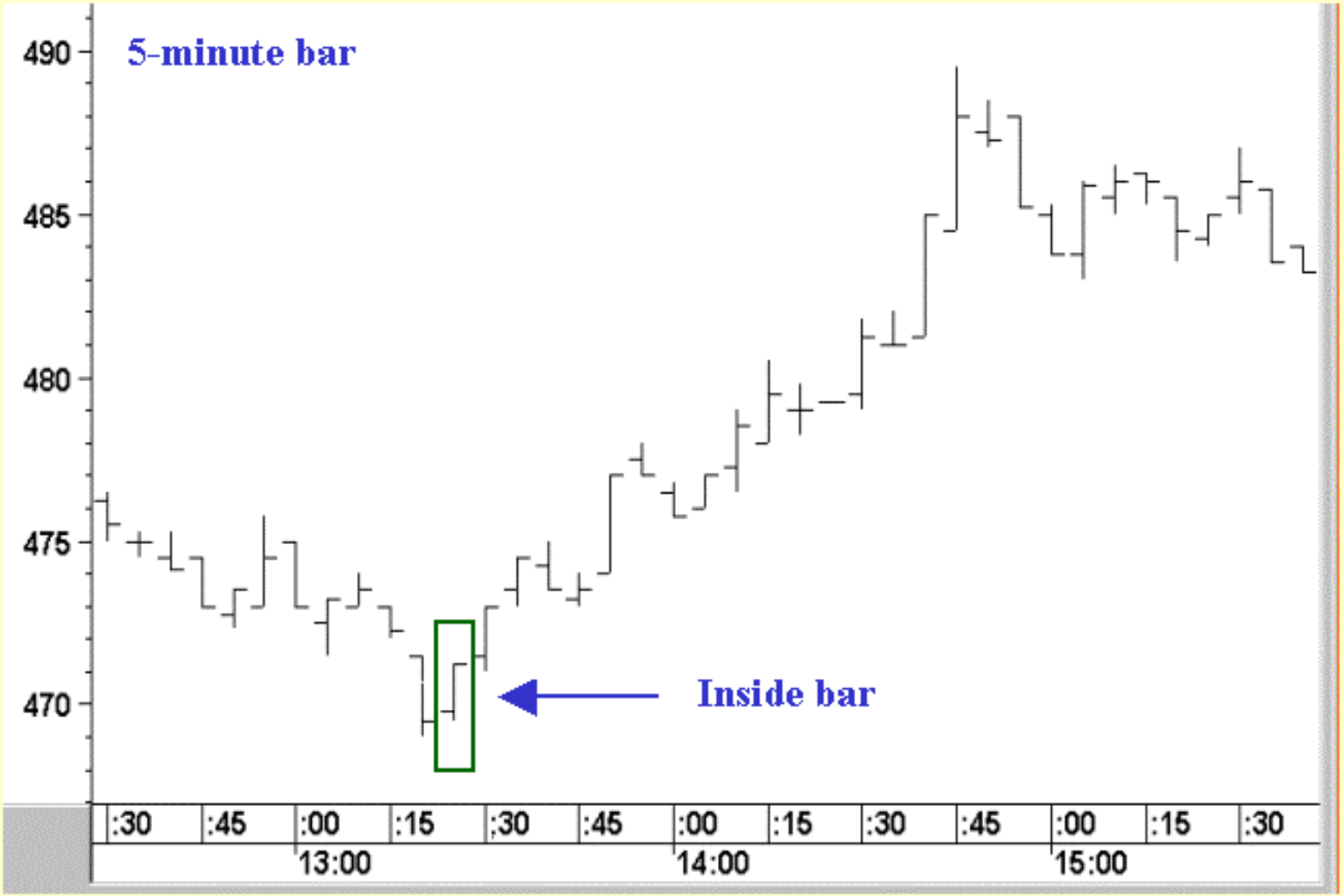

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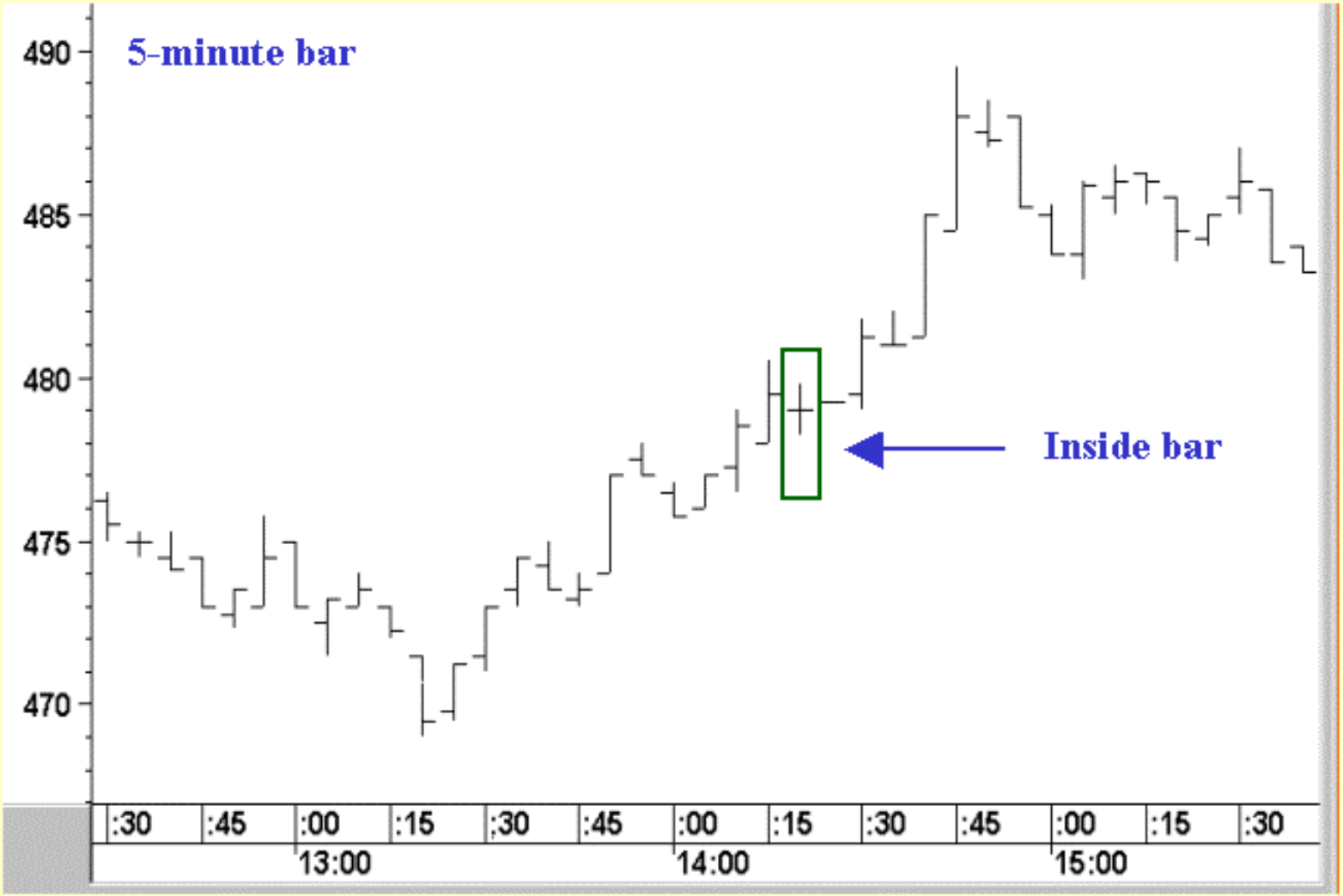

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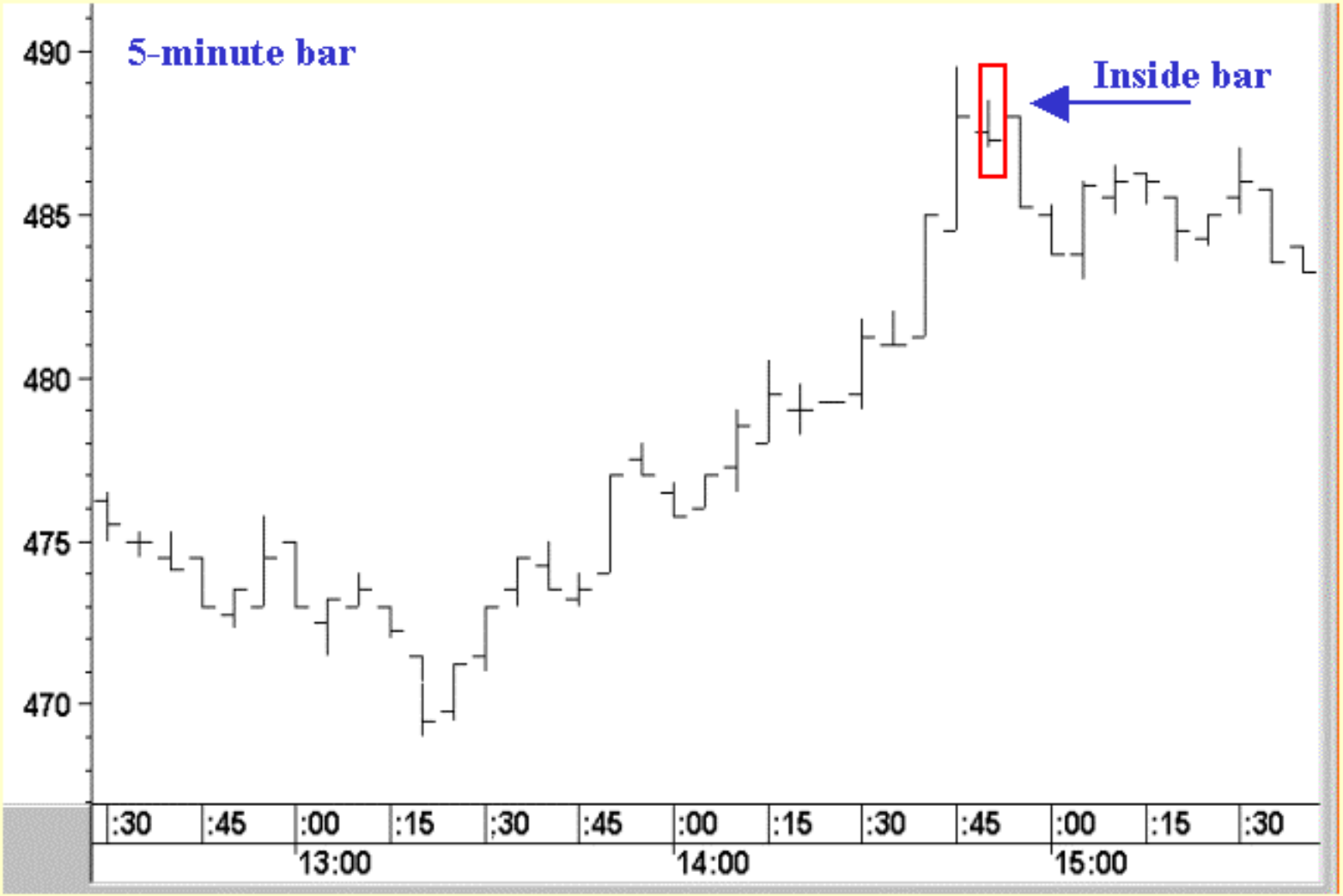
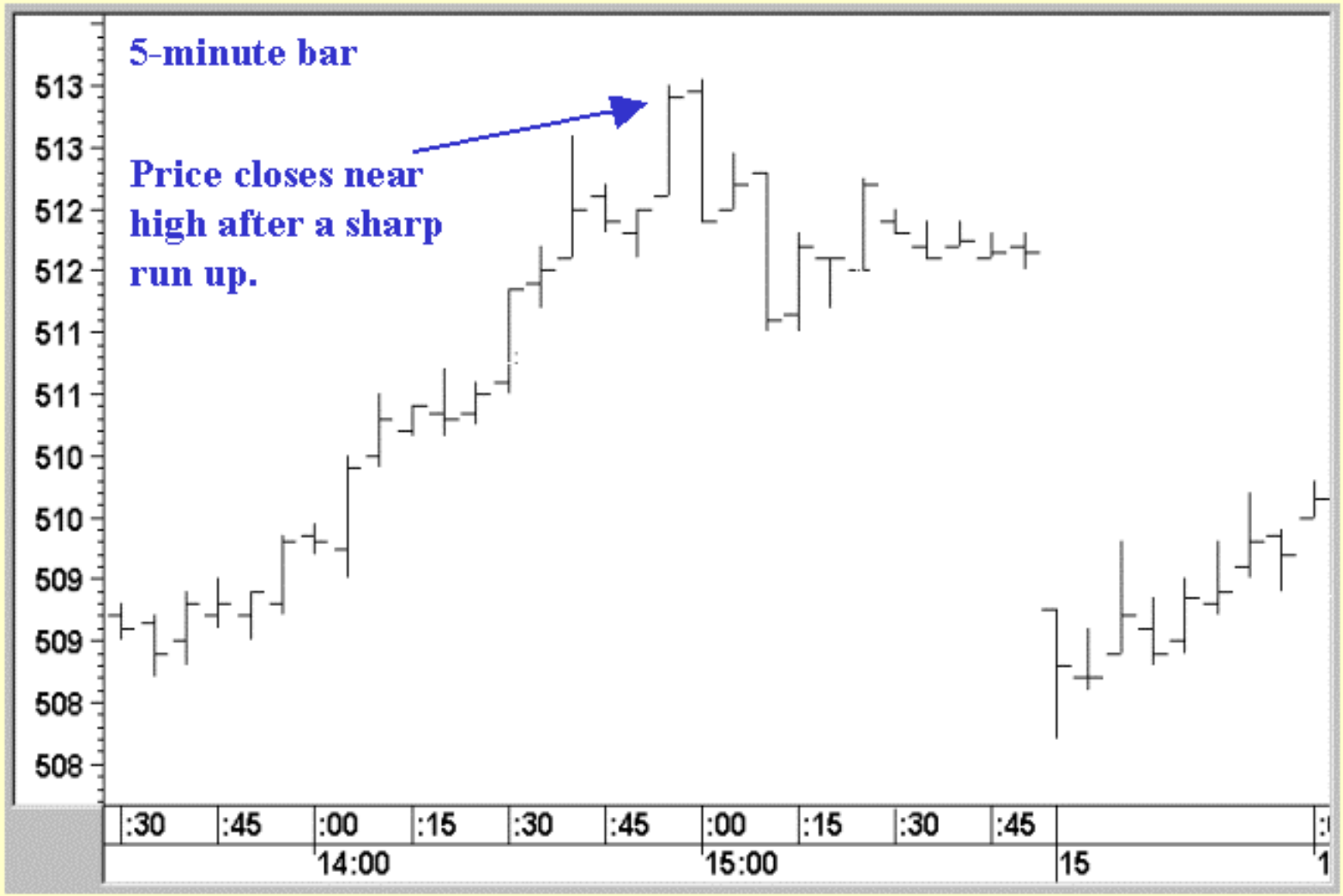


Two Bar Reversals

Two bar reversals indicate a dramatic change in sentiment..

S&P Composite



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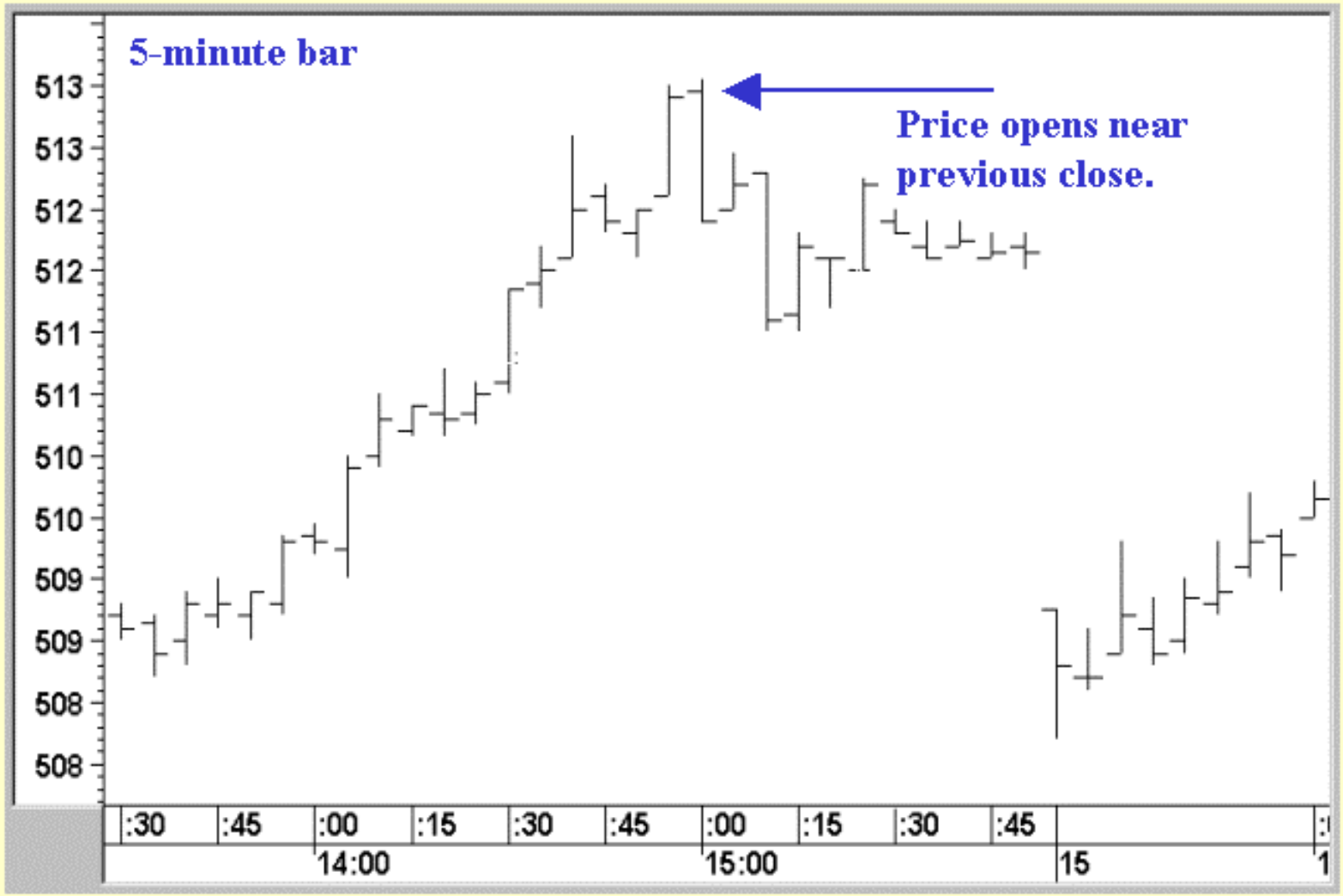

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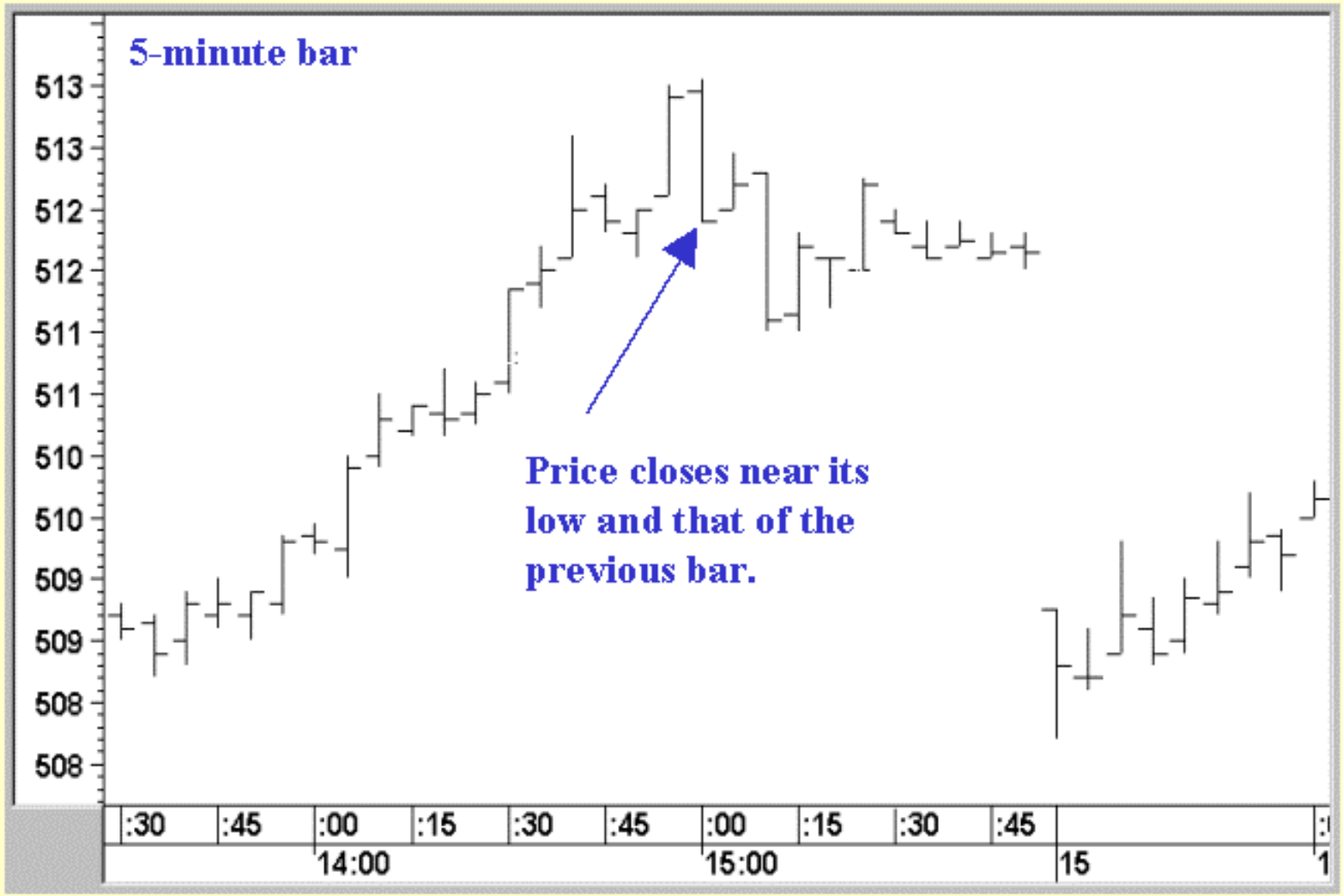
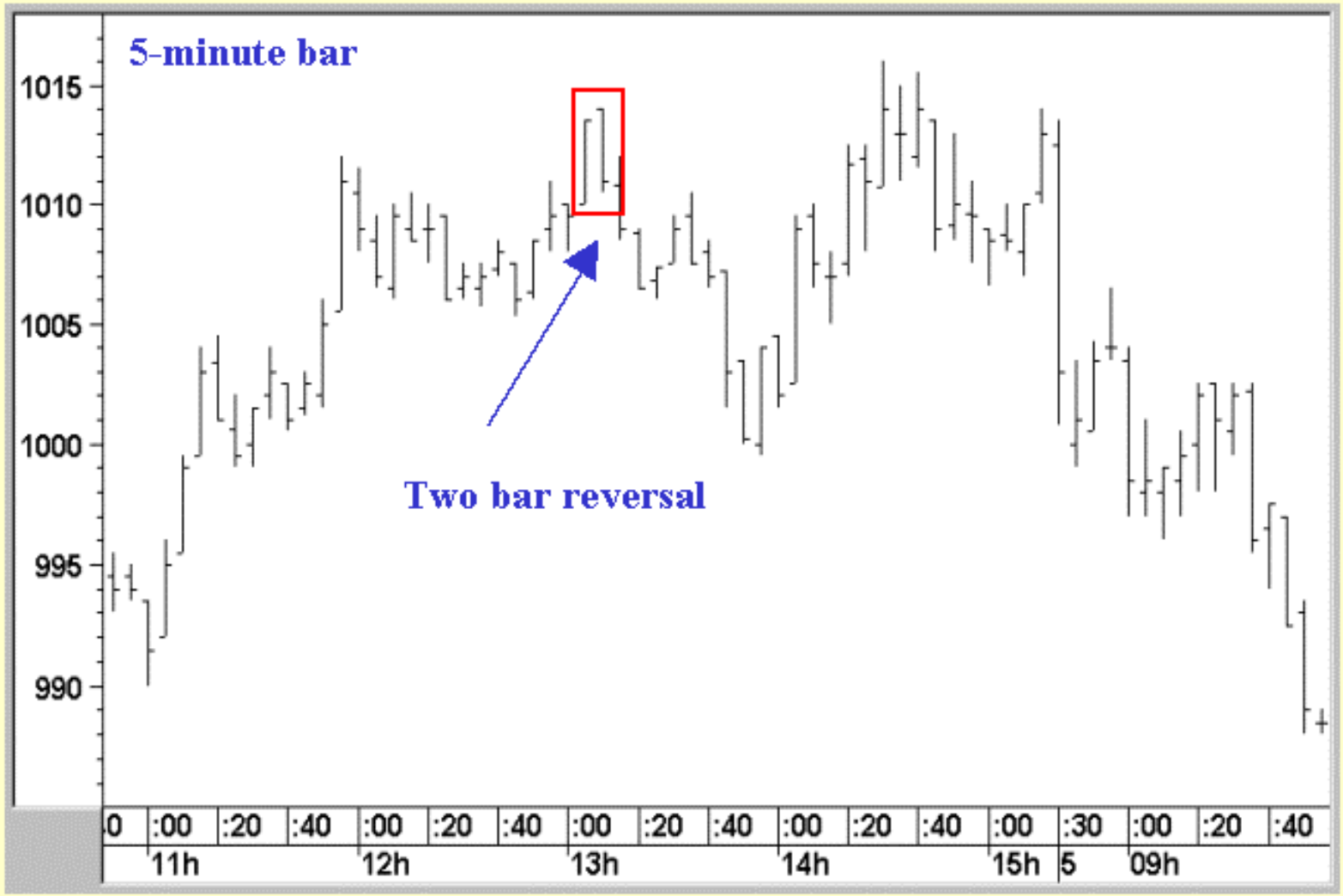
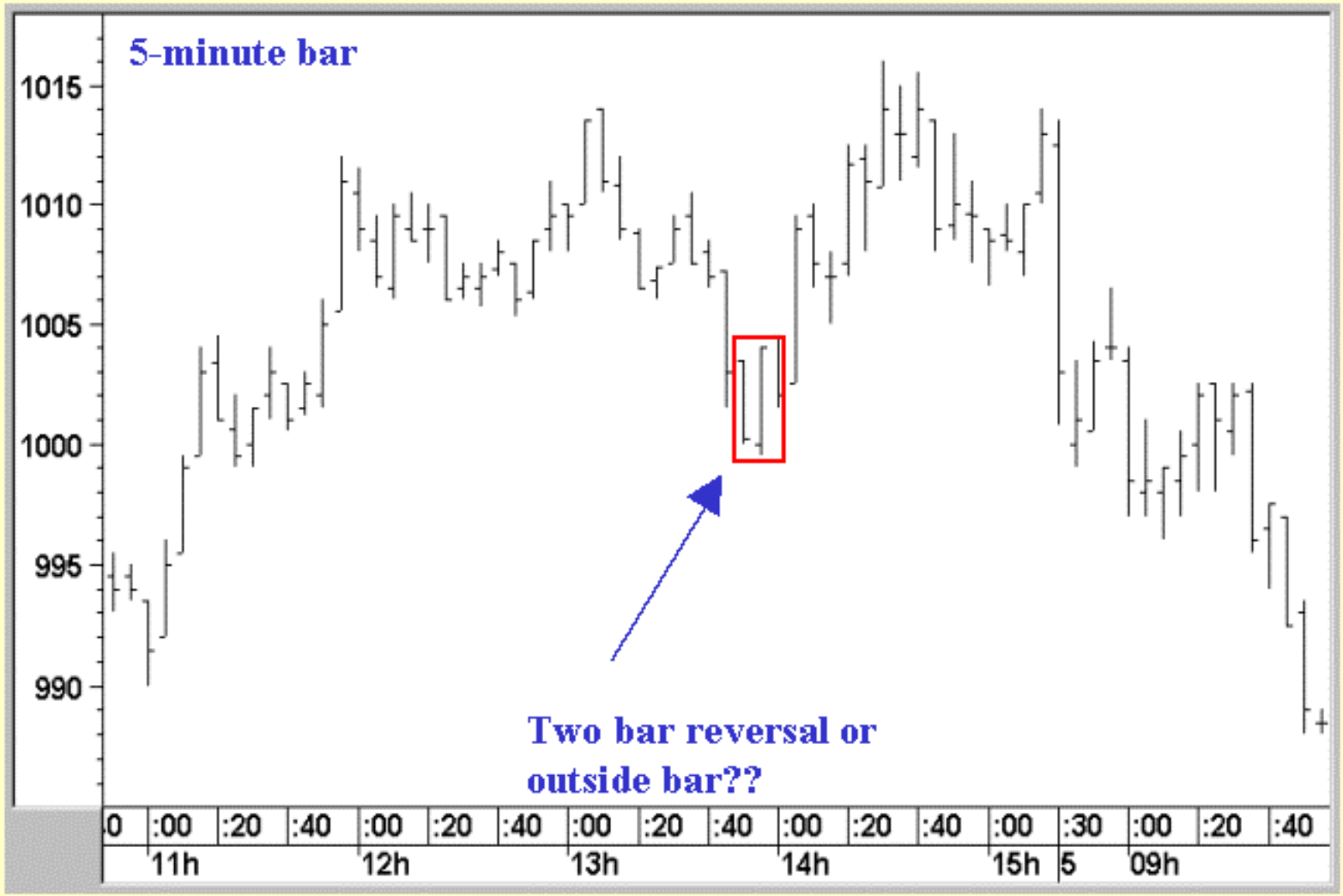


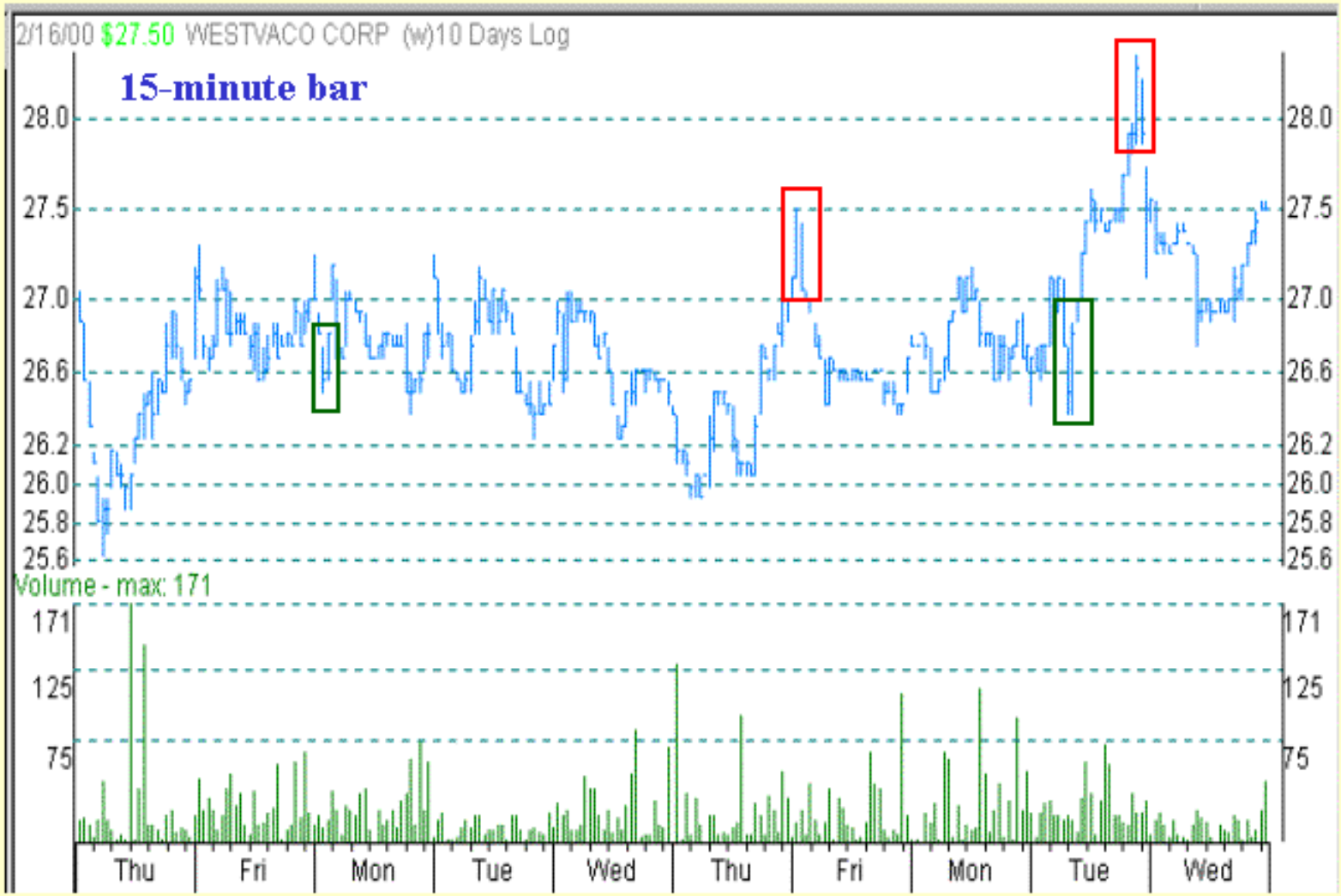
December 1998 S&P



December 1998 S&P



Westvaco


2/16/00 $27.50 WESTVACO CORP (w)10 Days Log
15-minute bar
28.0
27.5
27.0
26.6
26.2
26.0
25.8
25.6
Volume - max: 171
171
125
75
Thu
Fri
Mon
Tue
Wed
Thu
Fri
Mon
Tue
Wed

Westvaco

2/16/00 $27.50 WESTVACO CORP (W)5 Days Log
5-minute bar
28.0
27.5
27.0
26.7
26.4
26.1
25.9
Volume - max: 259
259
200
150
100
50
Thu
Fri
Mon
Tue
Wed

Key Reversal Bar

A very strong signal of a reversal in sentiment.

Characteristics

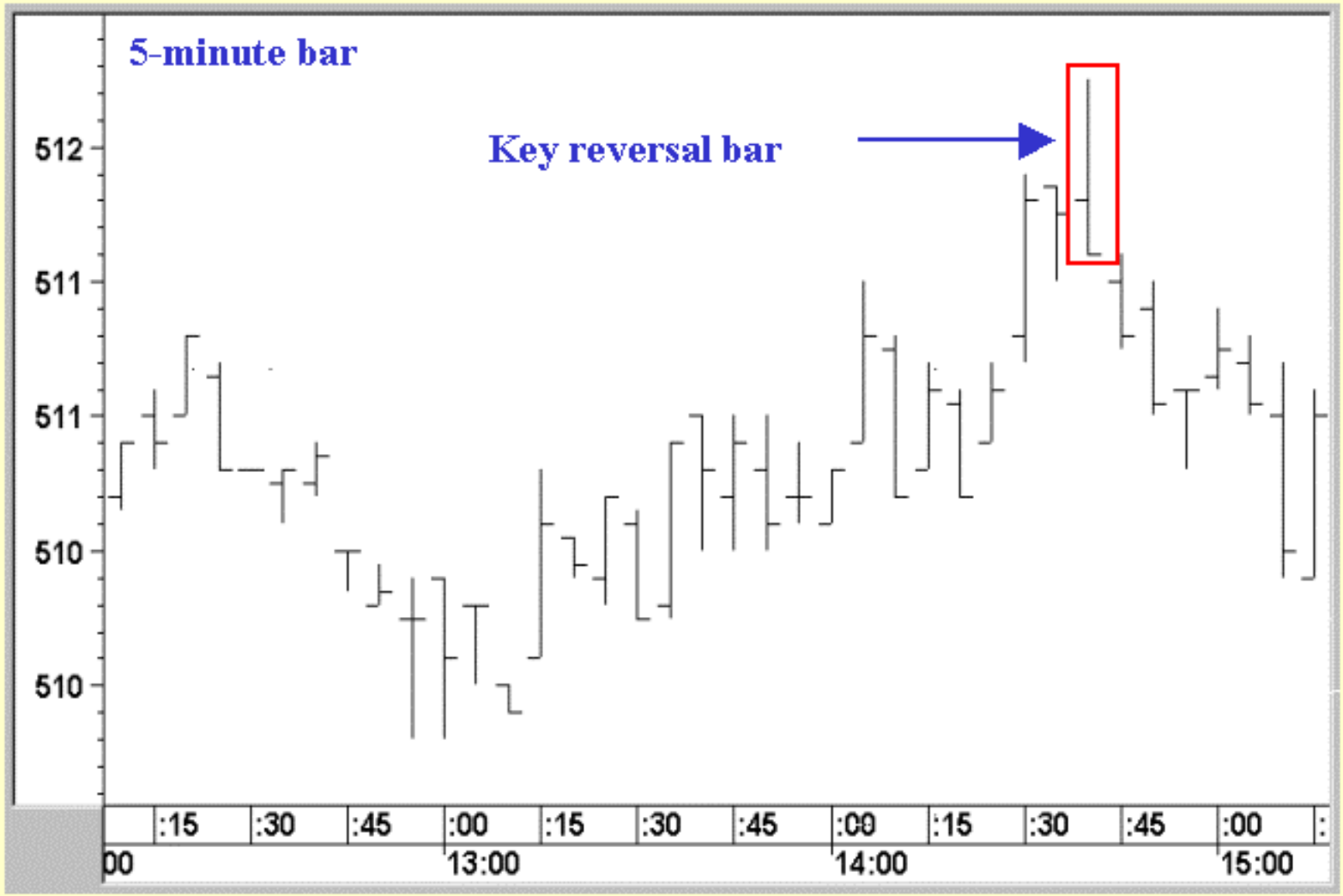
1. Price opens the bar strongly in the direction of the prevailing trend.

2. Trading range of the bar is extremely wide.

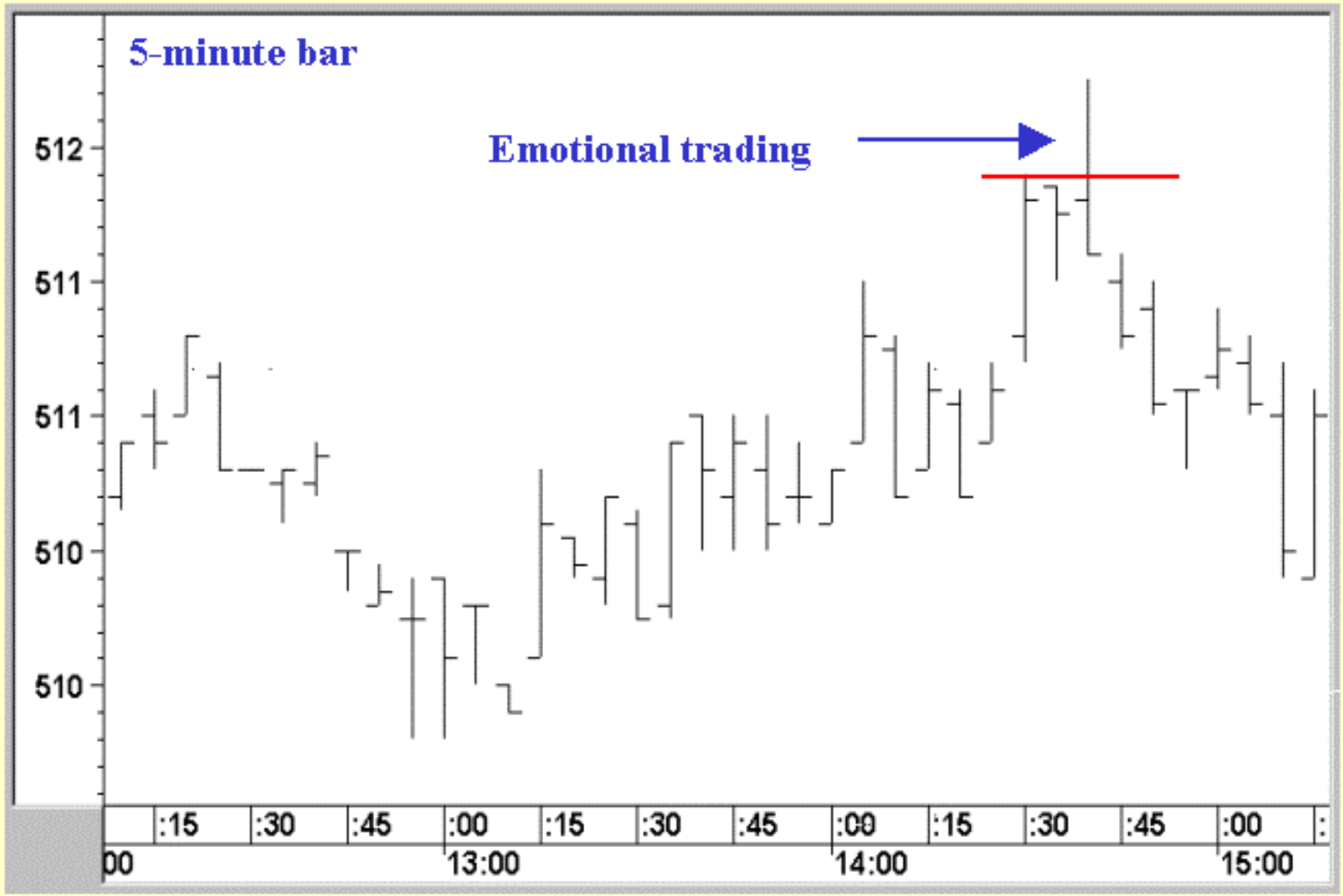
3. Price should close at or close to the previous close.

The key reversal bar should be accompanied by climactic volume.

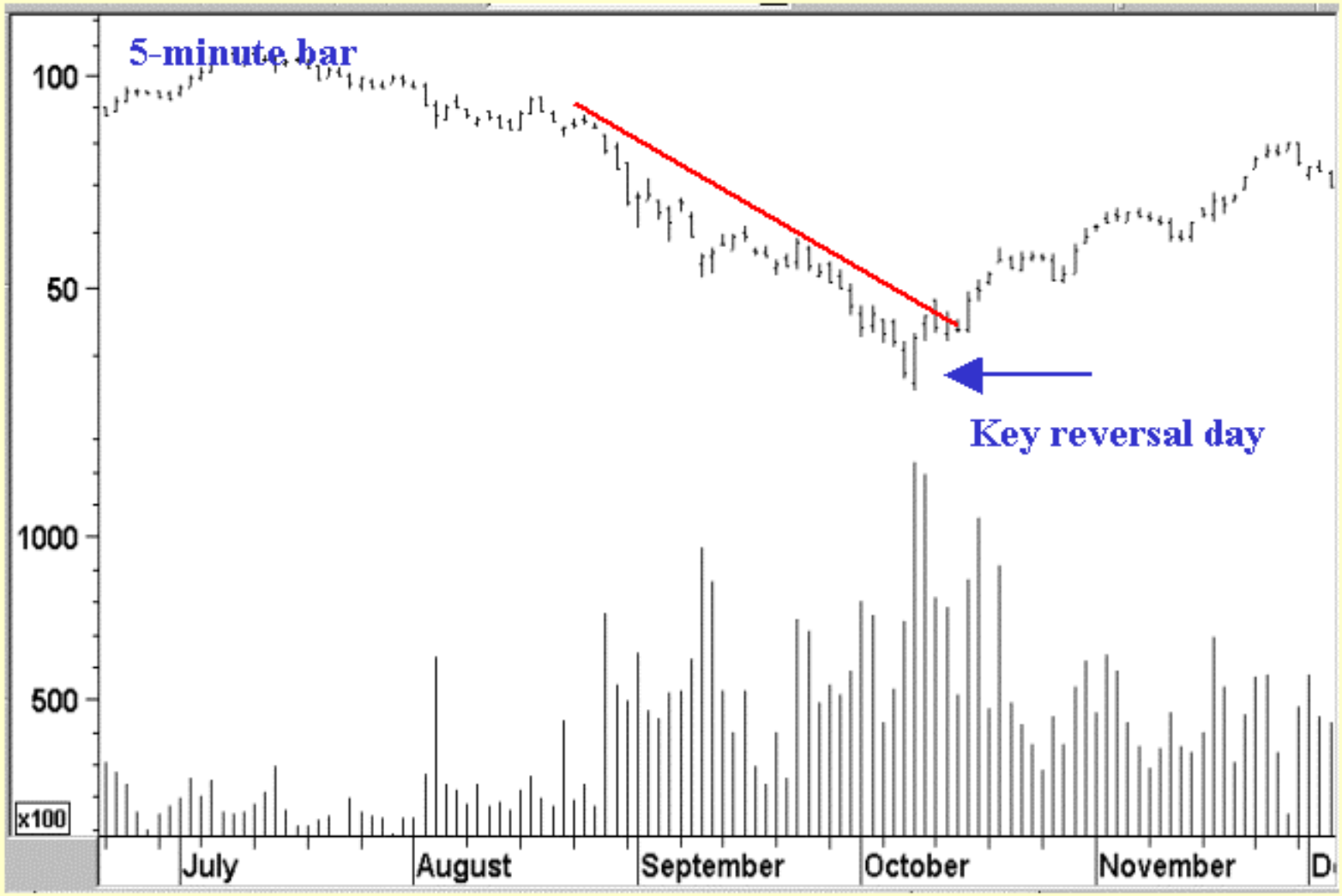
December 1998 S&P



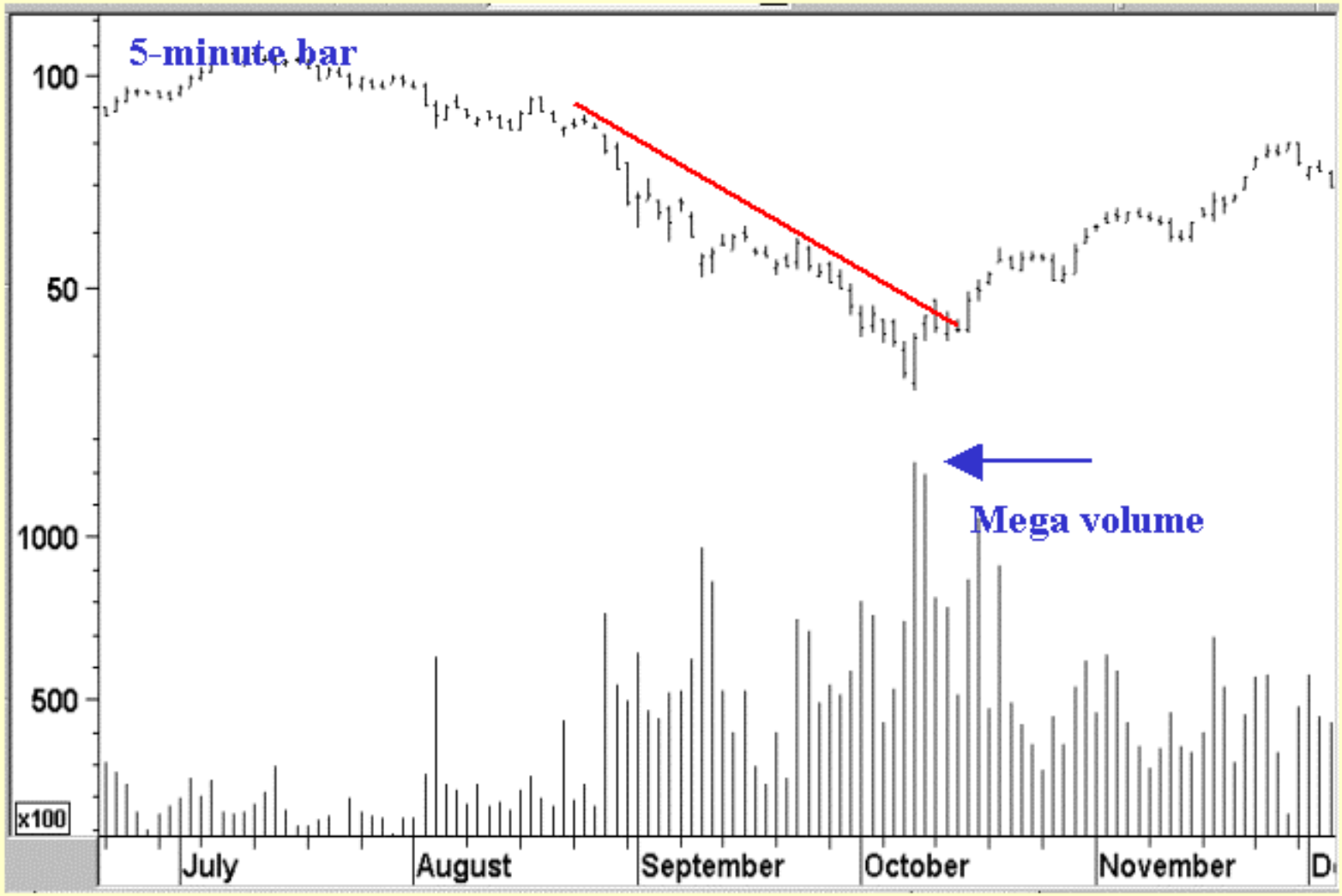
December 1998 S&P



Merrill Lynch



Merrill Lynch



Exhaustion Bars

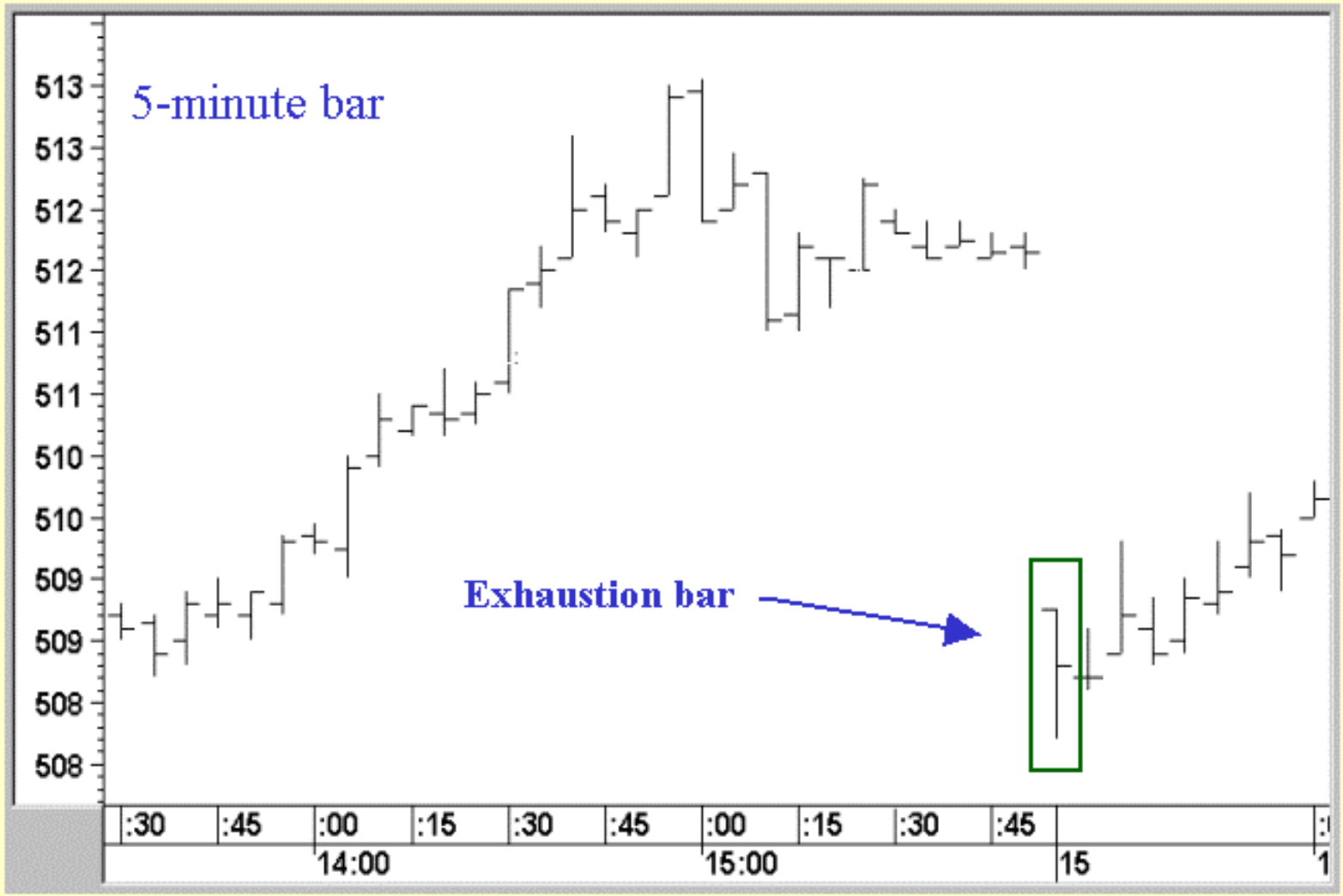
Characteristics of Exhaustion Bars

1. A wide trading range following a sharp price move.

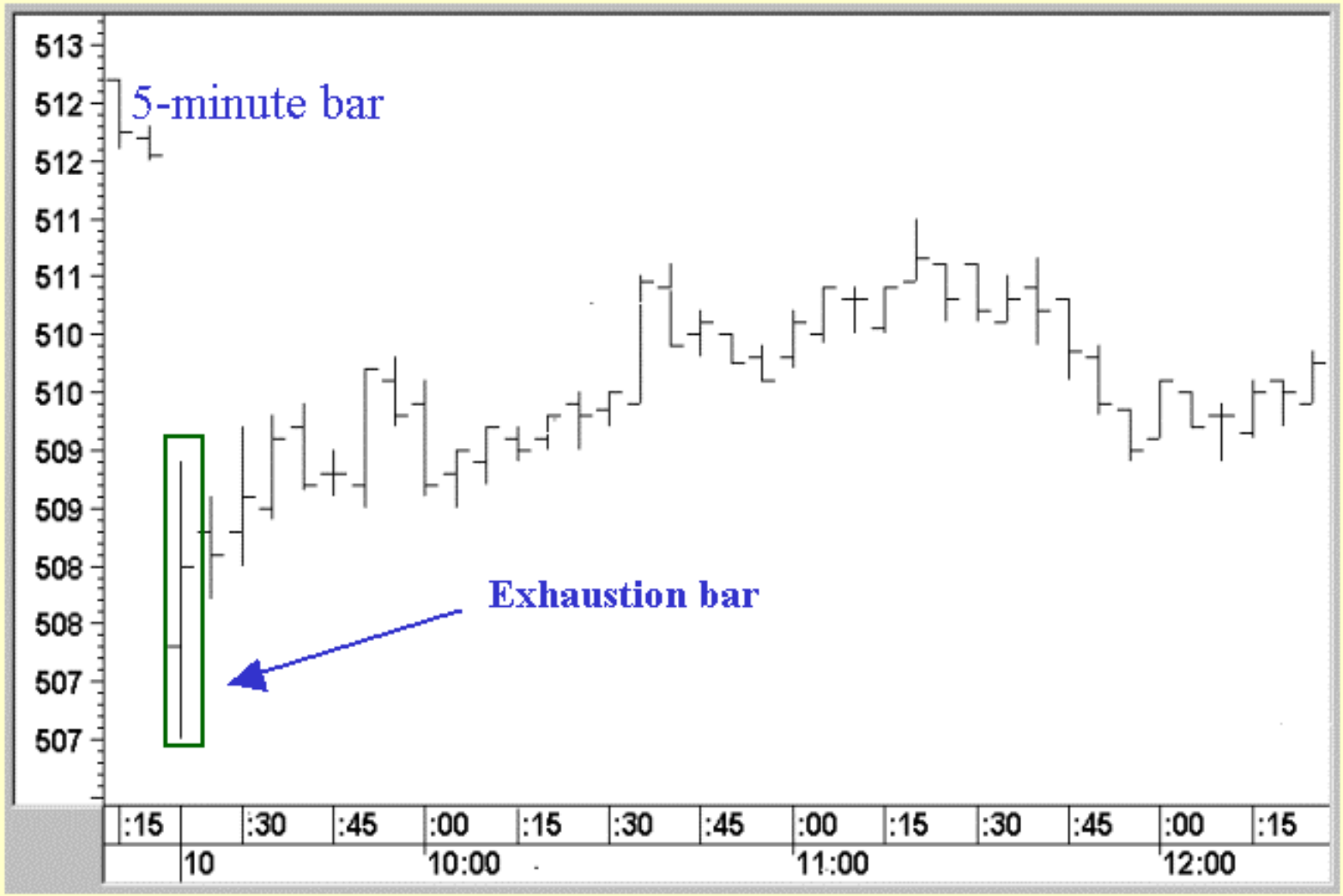
2. The close is higher than the opening in a downtrend or the opening is lower than the close in an up trend..

3. The close is more than half way up the bar in a down trend, and more than half way down in an up trend.

December 1997 NYSE Composite



December 1997 NYSE Composite



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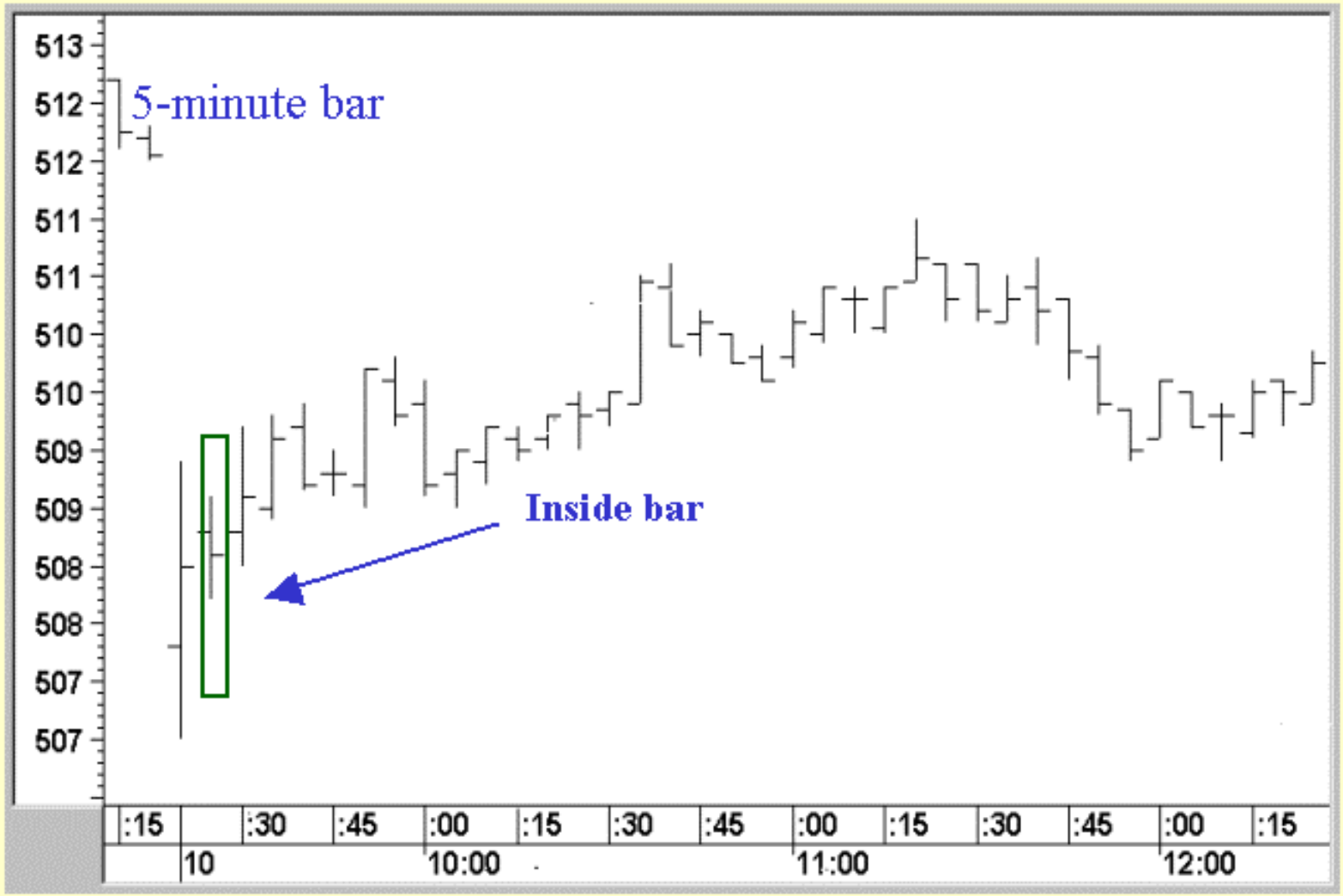

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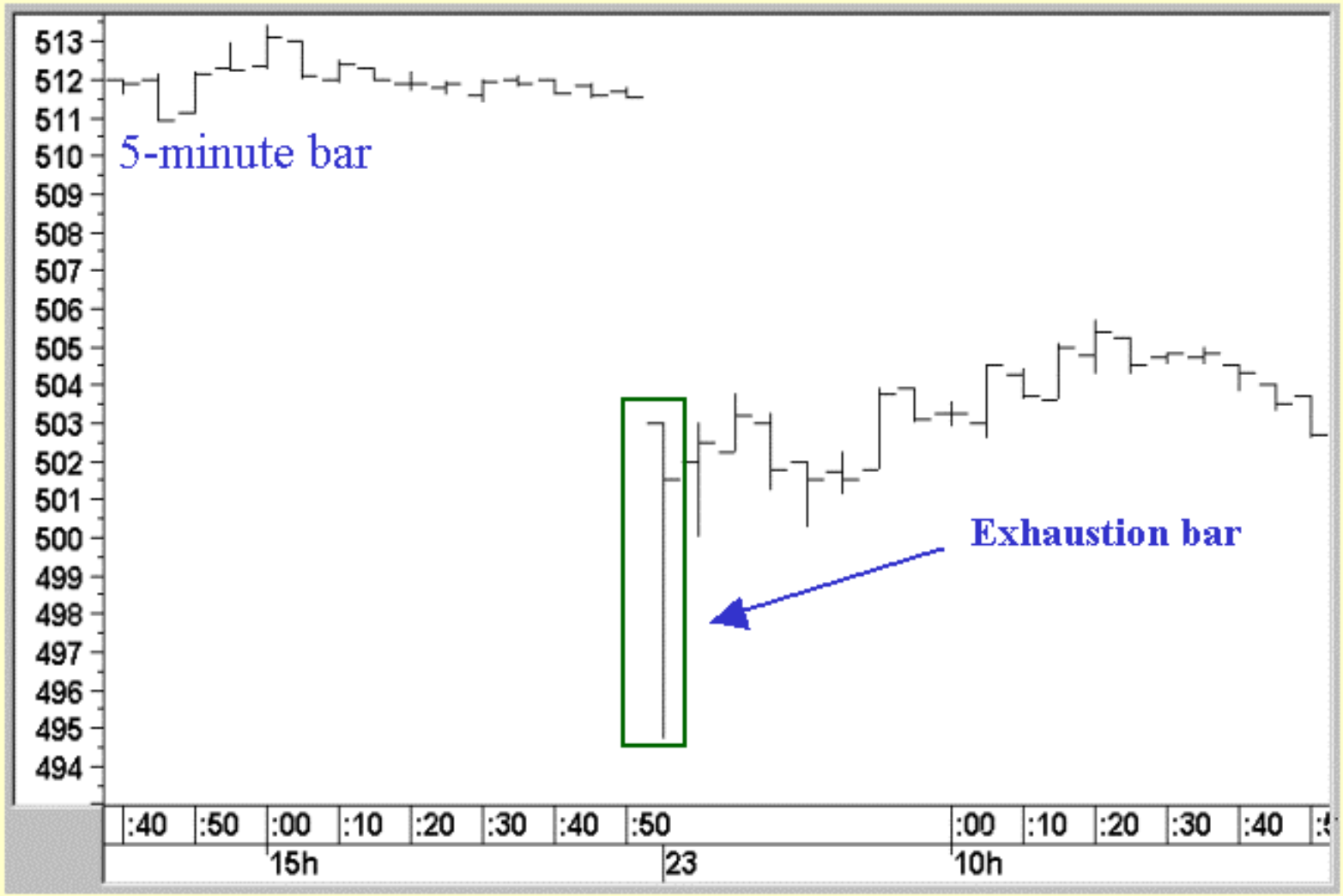

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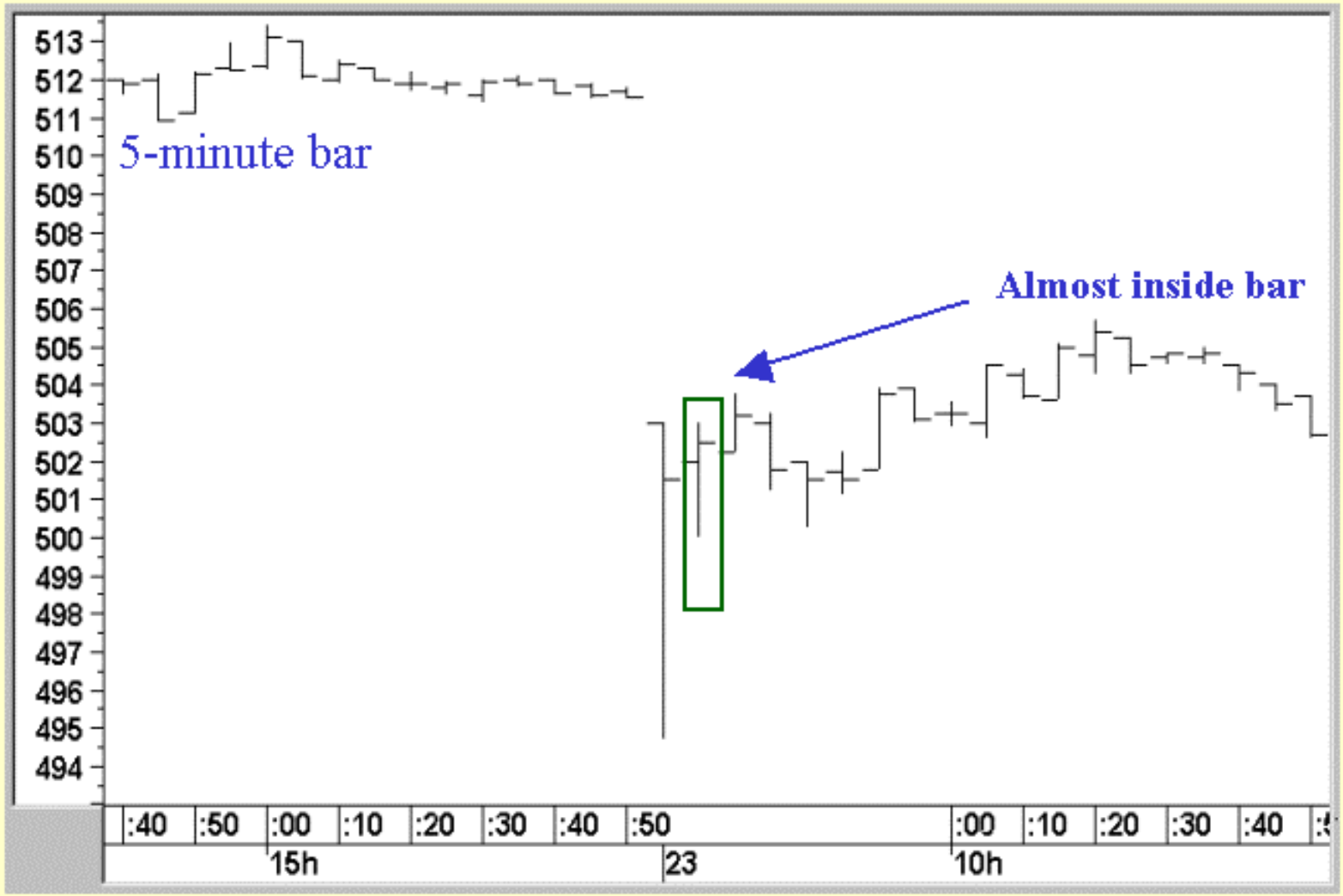
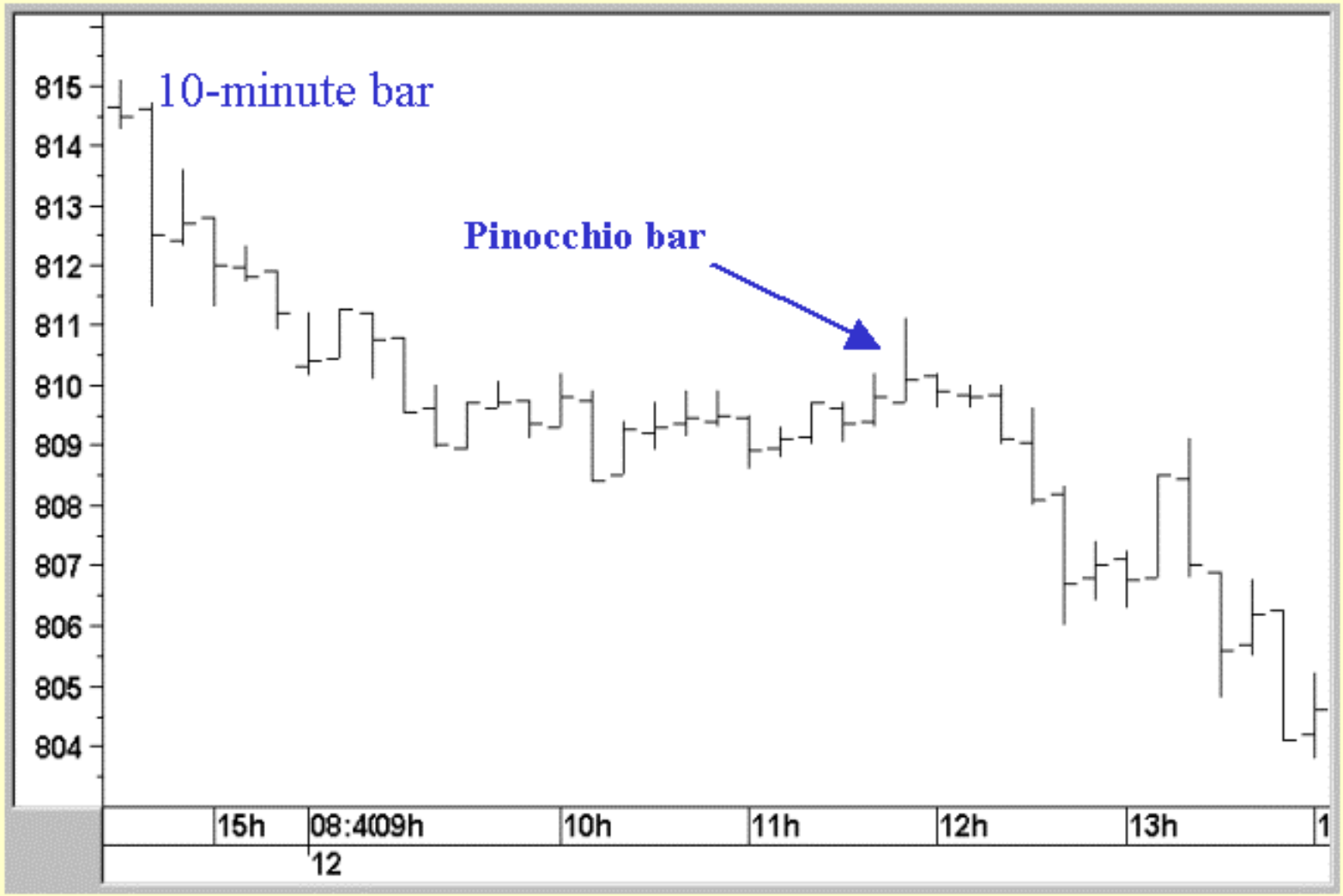


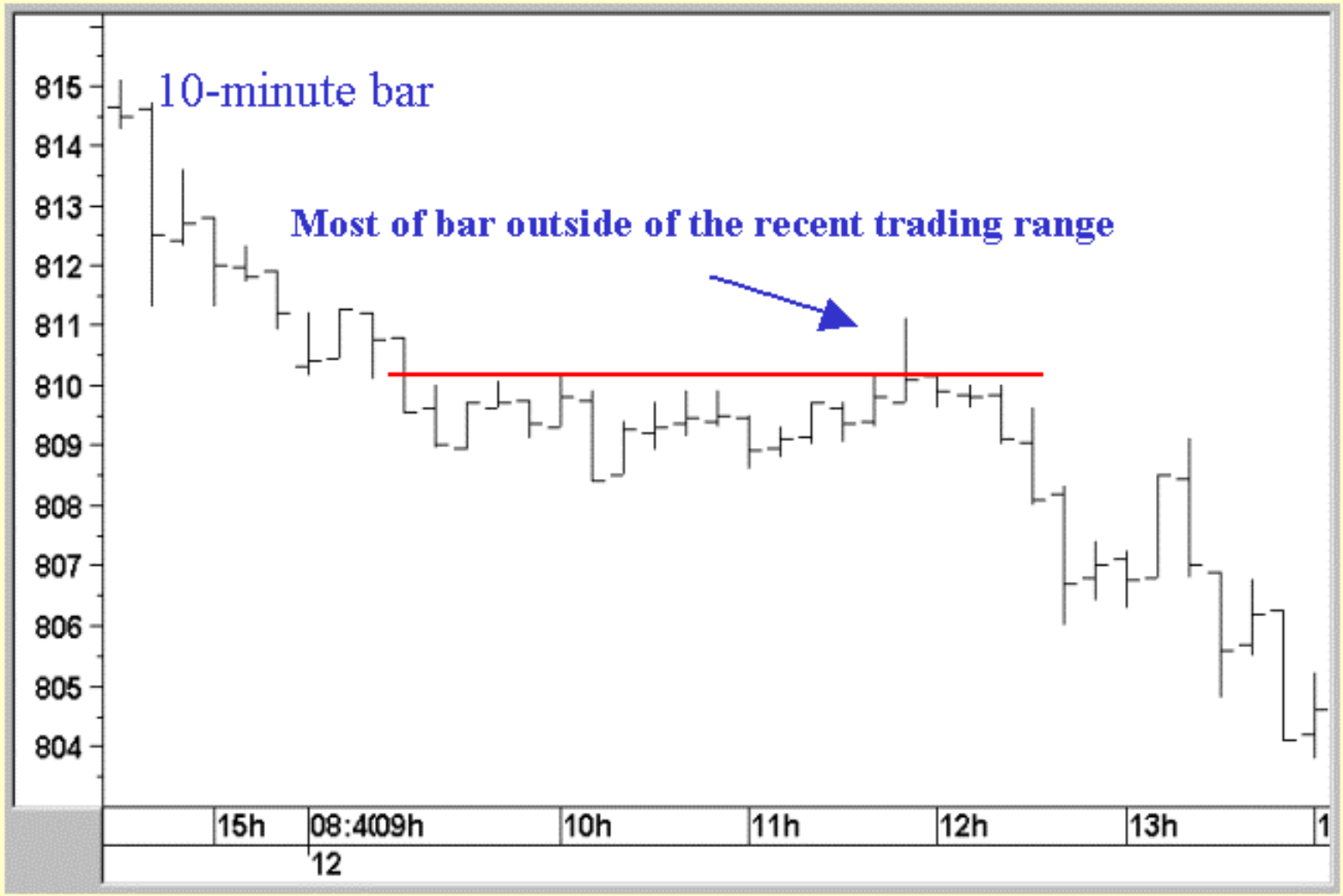
Pinocchio Bars

Pinocchio bars give us a false impression of what is really going on.

March 1997 S&P Composite



March 1997 S&P Composite



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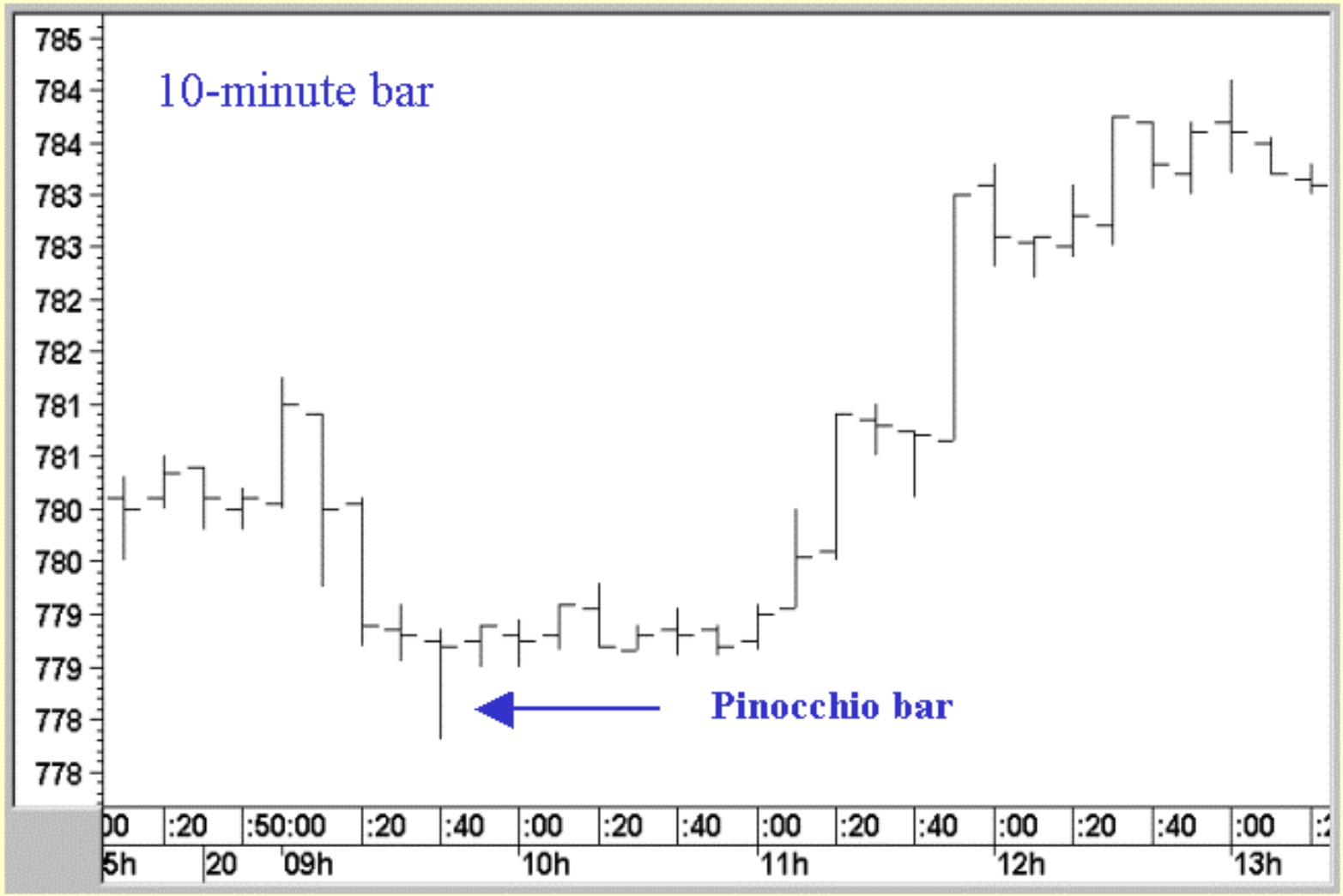

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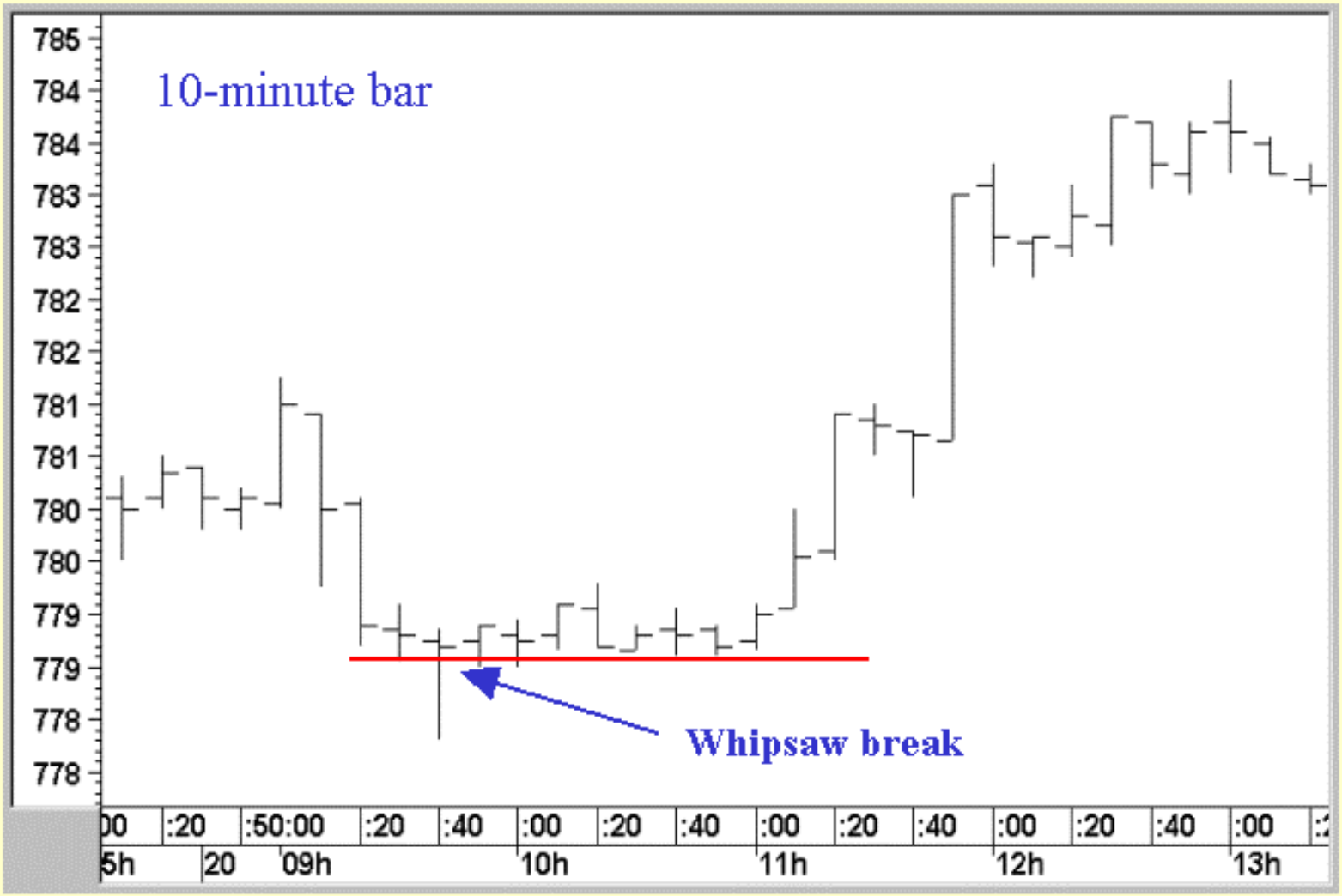

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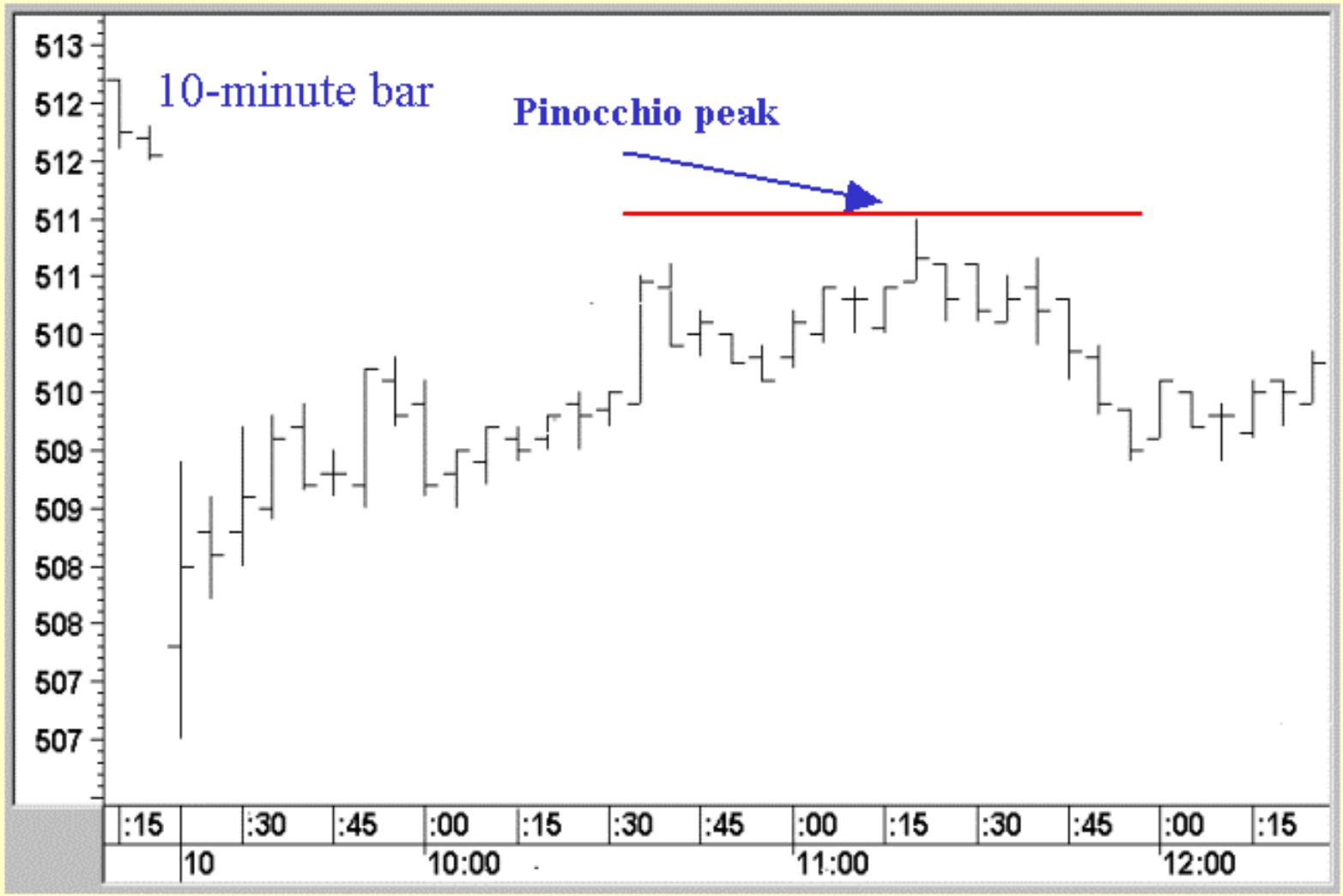

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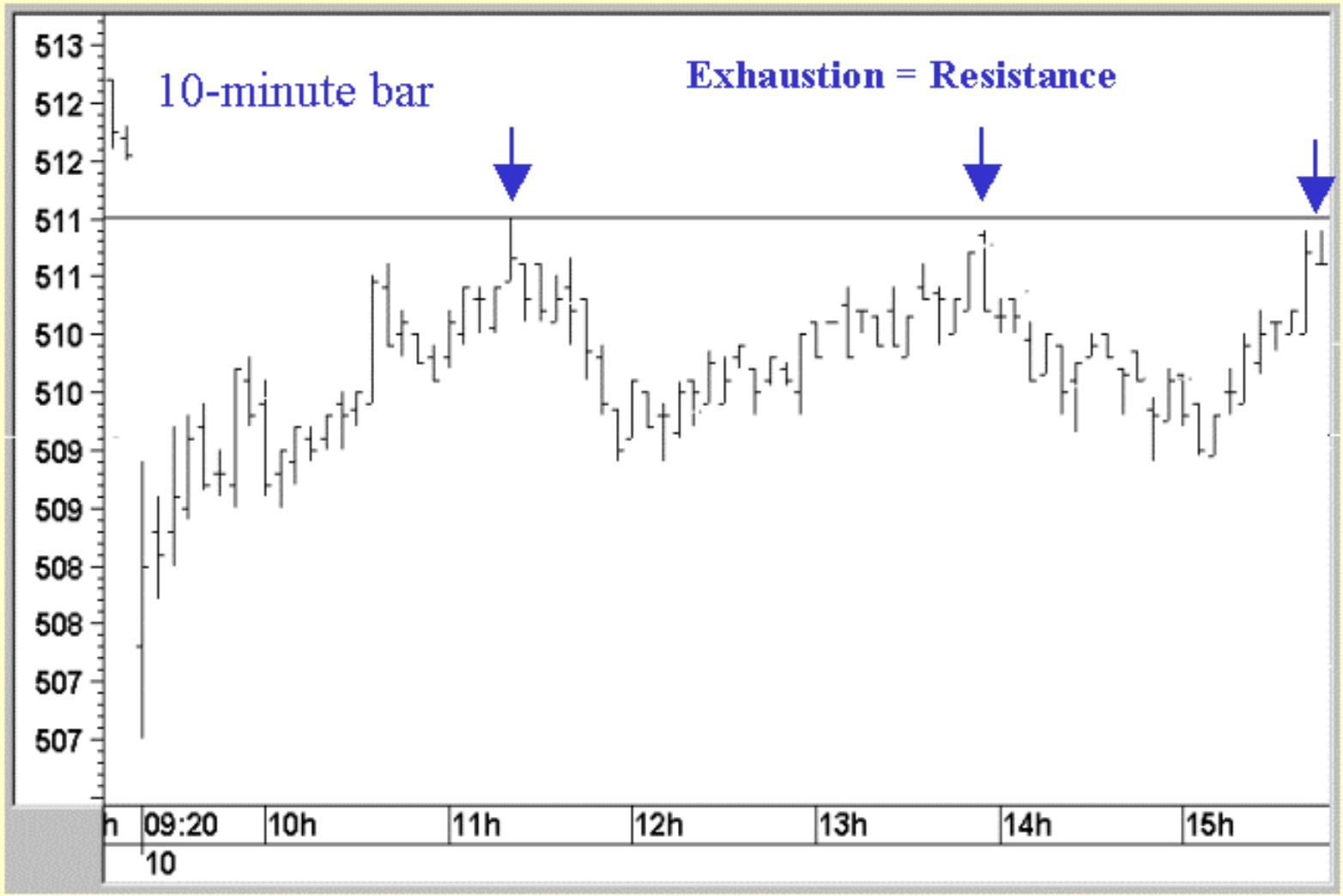


Placing Stops

The order is executed immediately the price is touched and there is no opportunity to second guess.

The disadvantage is that locals and market makers can "go" for your stop.

Advantages of Placing Stops

1. Mentally preparing for the worst.

2. Decision more likely to be made with a more balanced judgment.

3. A correctly placed stop is usually executed at a better price.

For liquidation of long positions, the best point to place a sell stop is below support and for covering a short one above resistance.

December 1997 Corn

December 1997 Corn

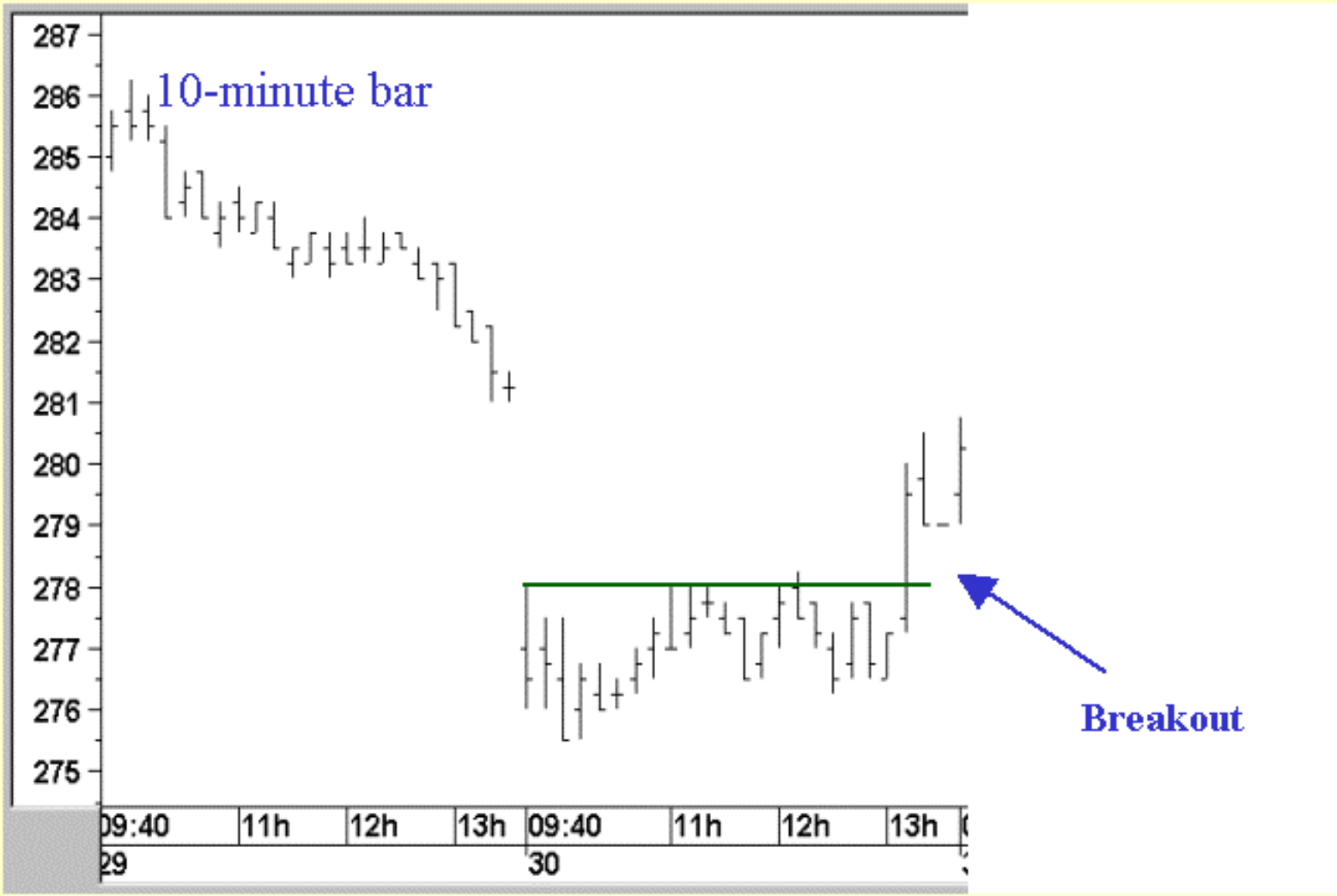
December 1997 Corn

December 1997 Corn

December 1997 Corn

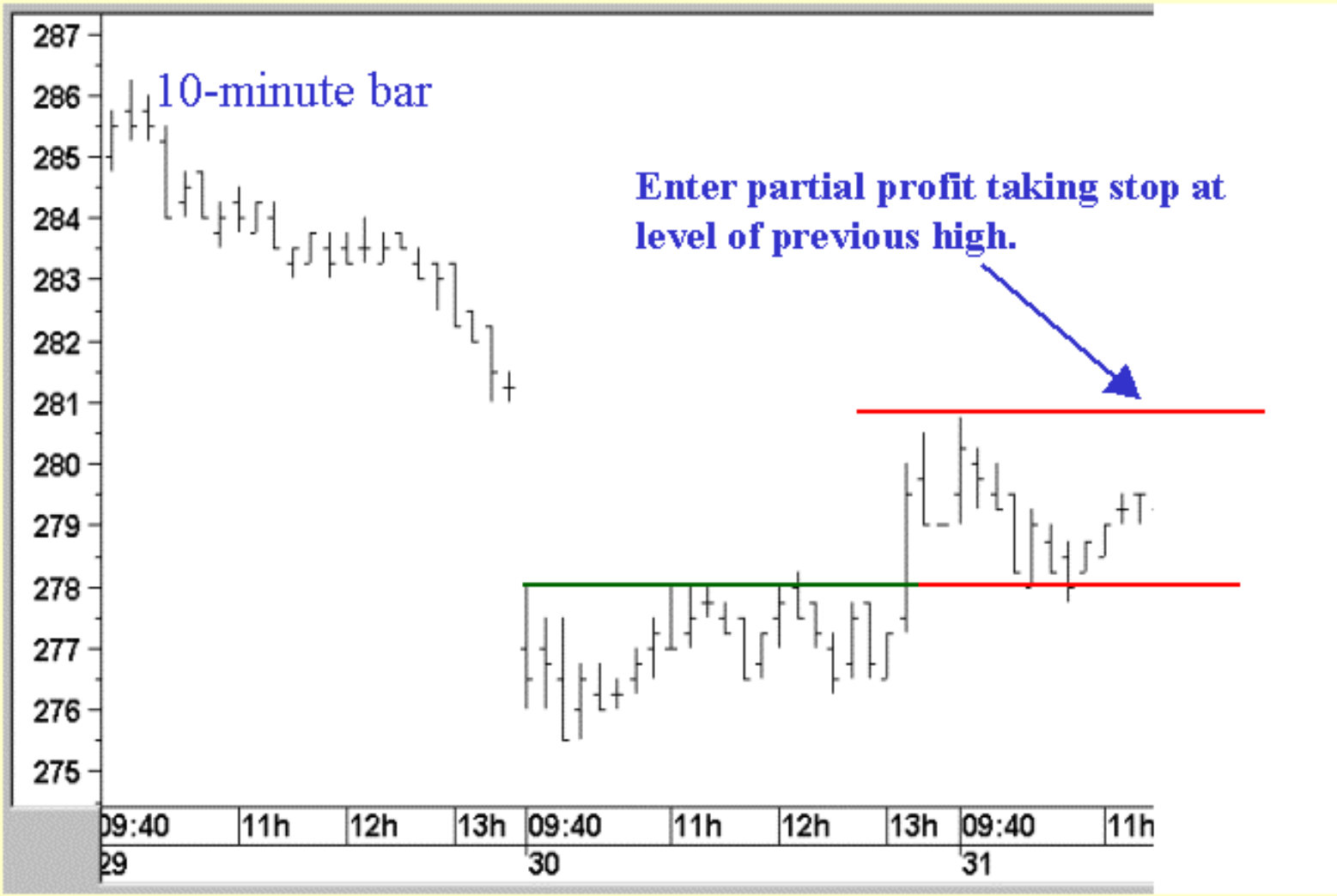
December 1997 Corn

December 1997 Corn



December 1997 Corn

December 1997 Corn



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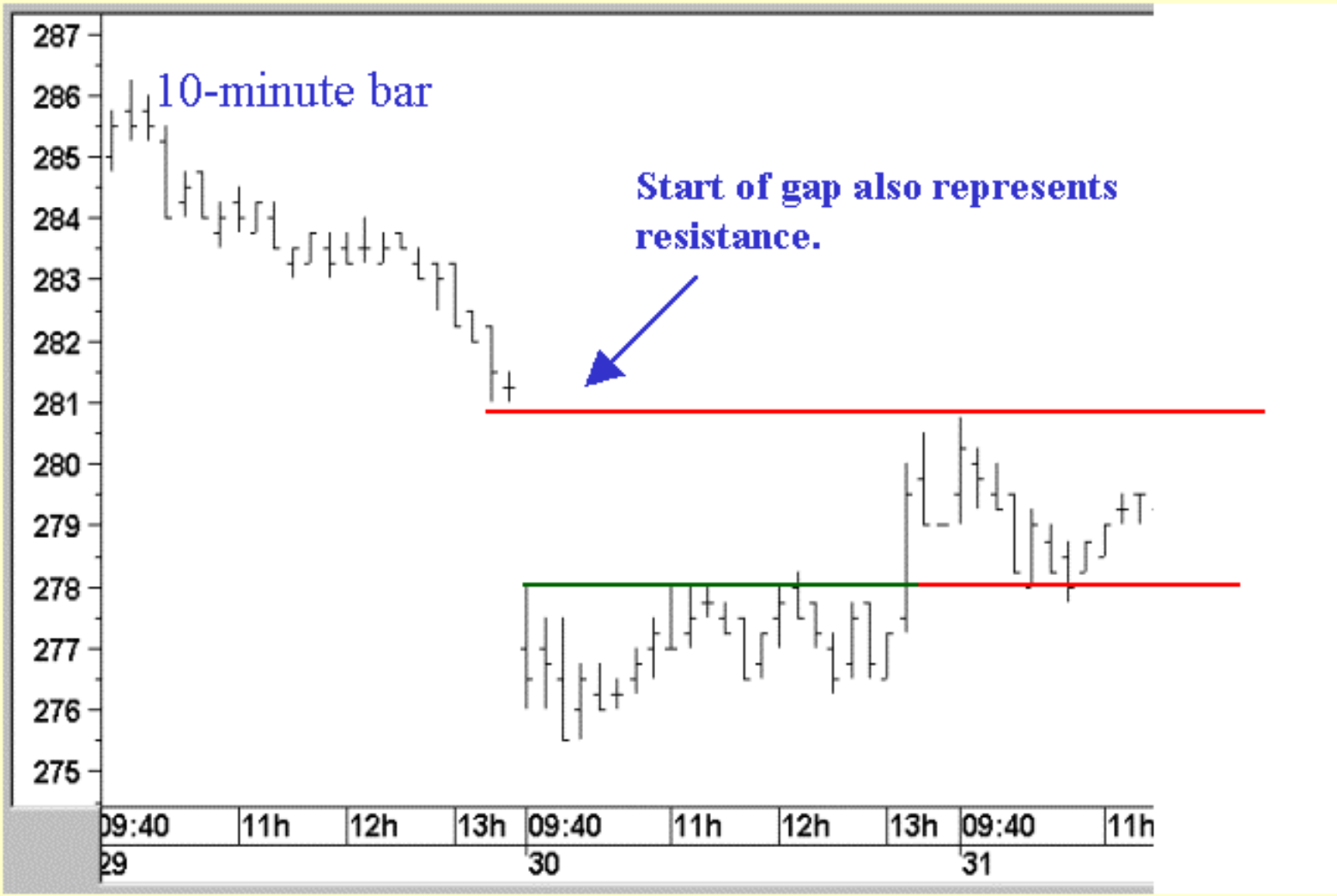
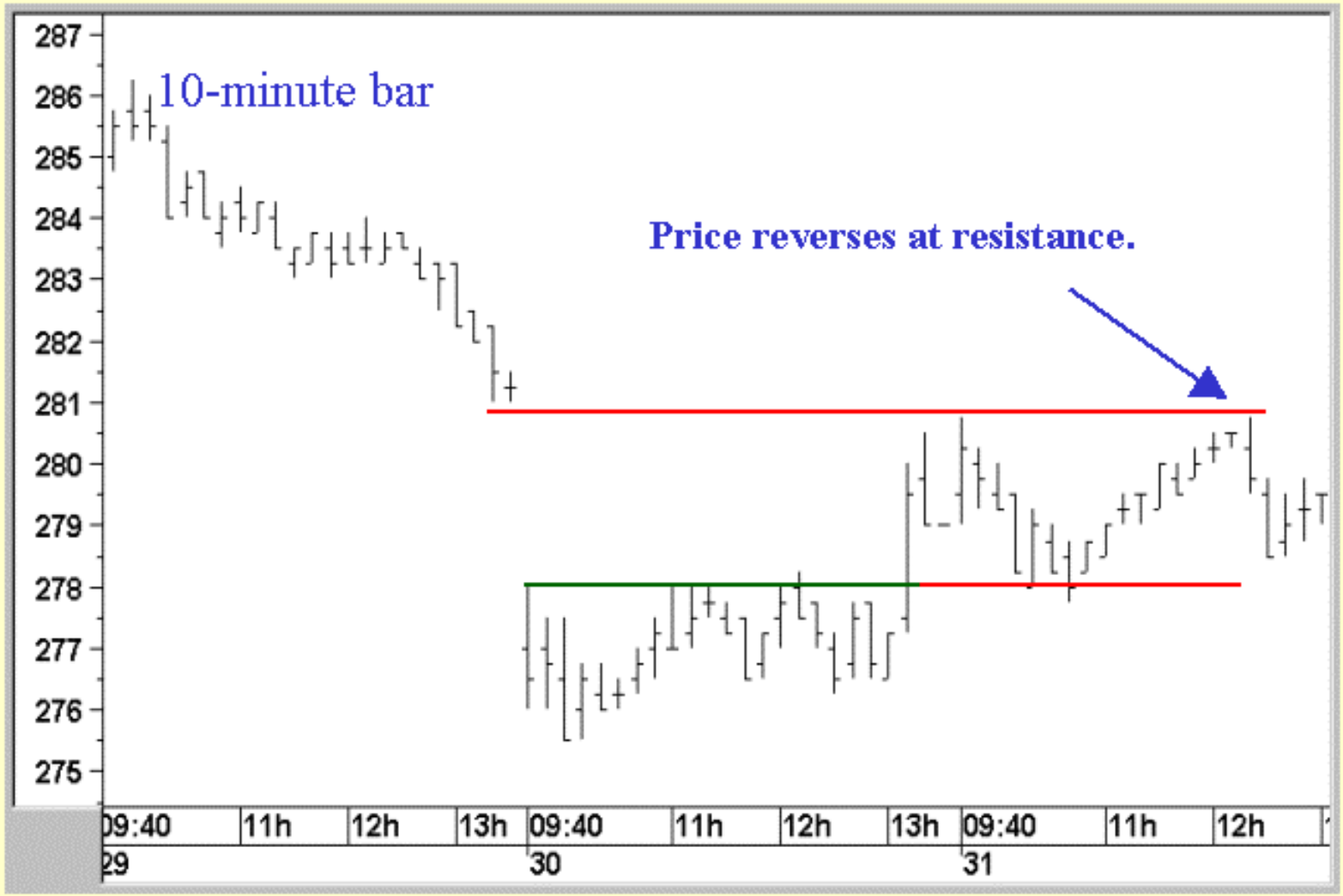
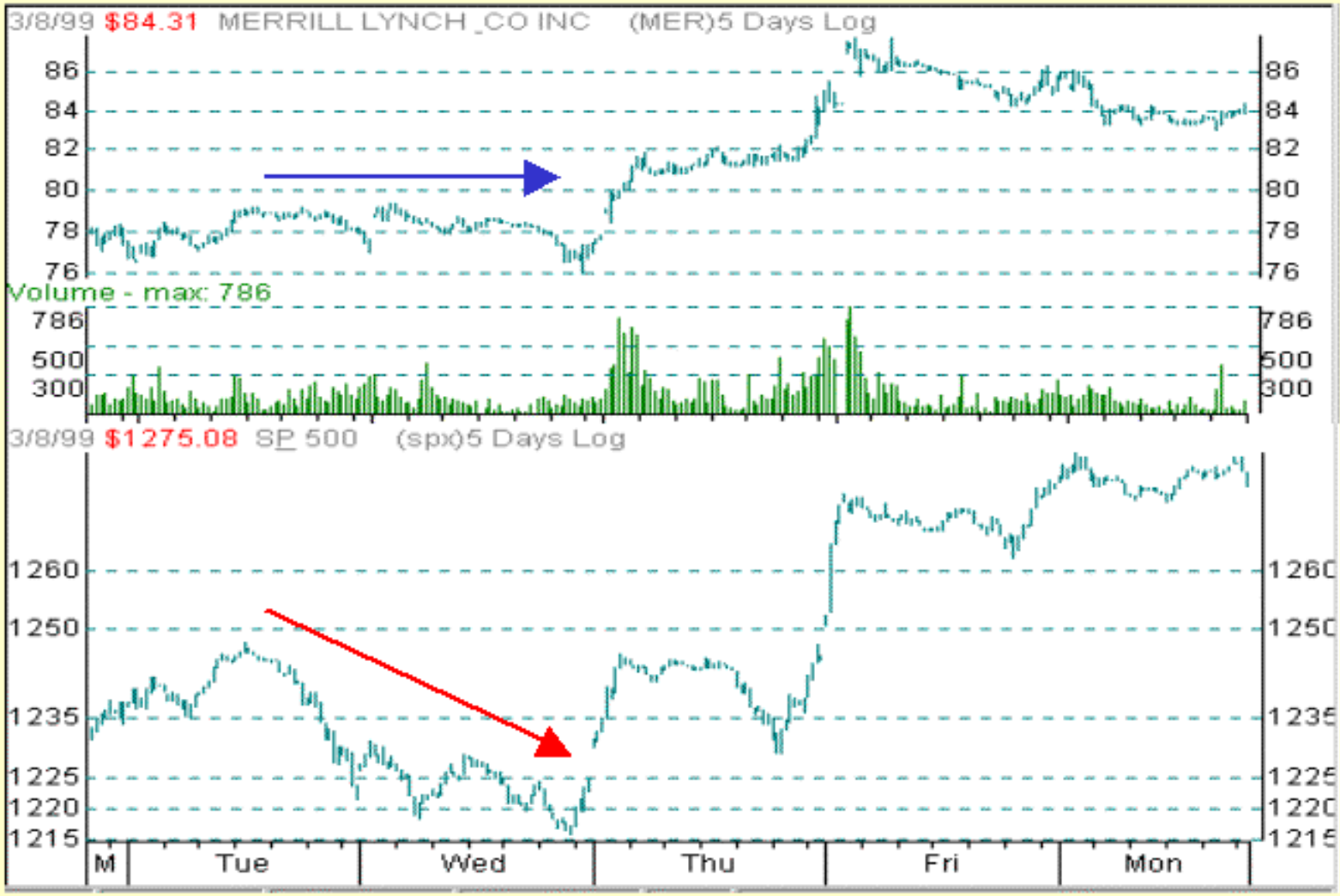


December 1997 Corn



Merrill Lynch Vs S&P Composite



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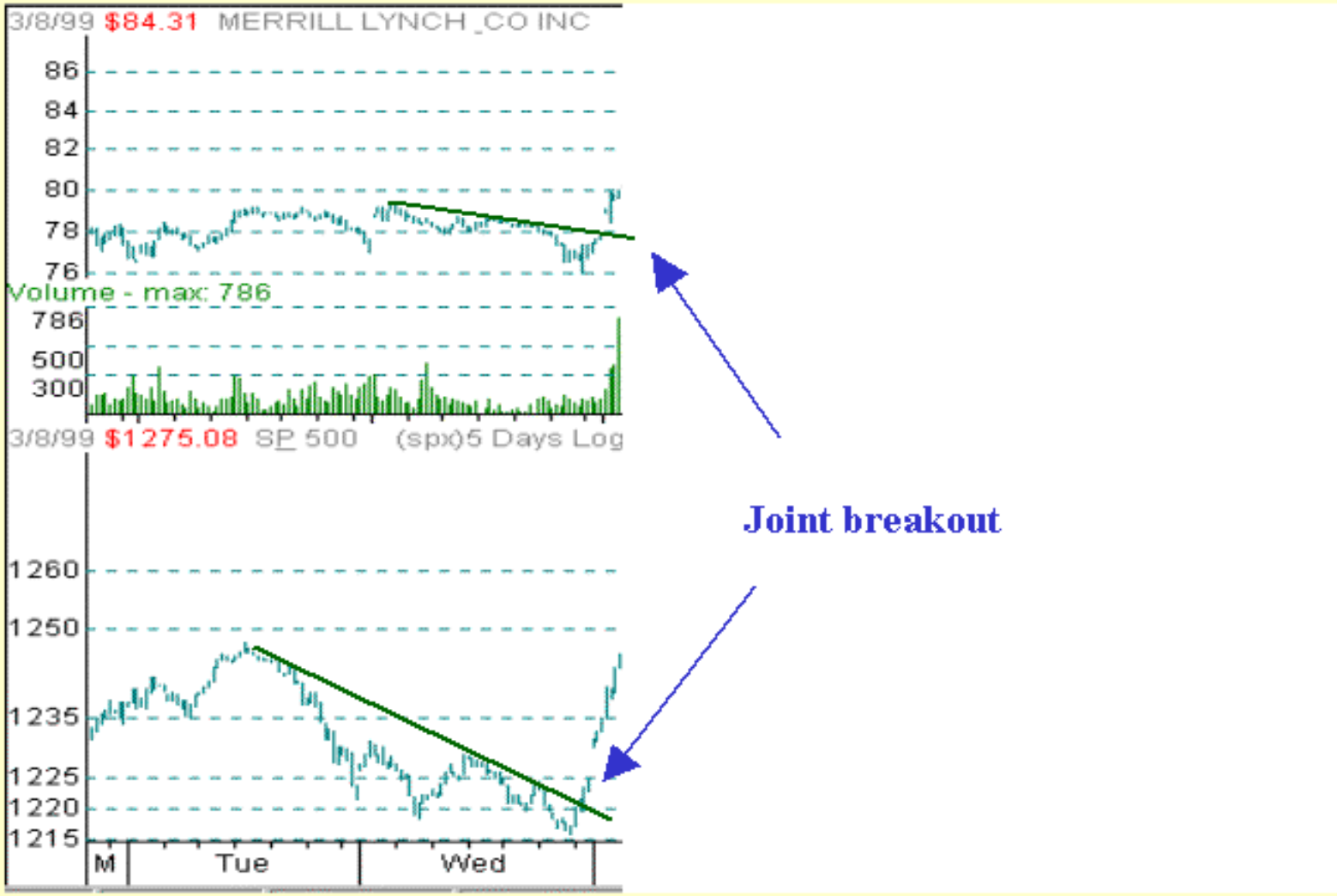

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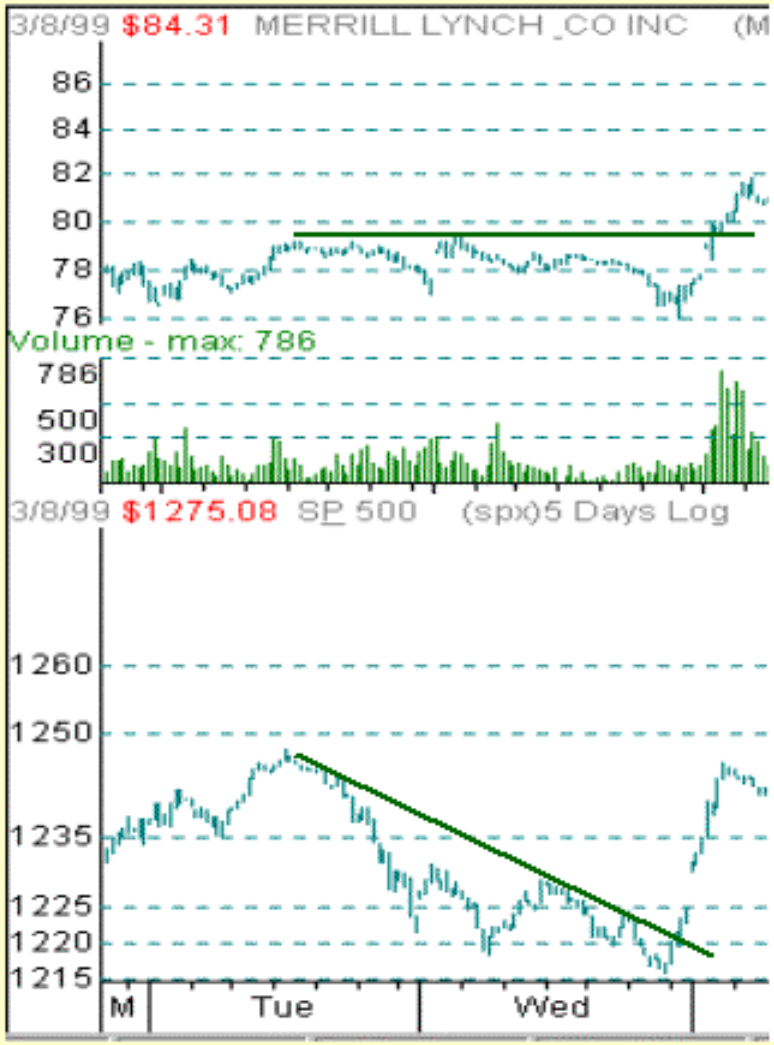

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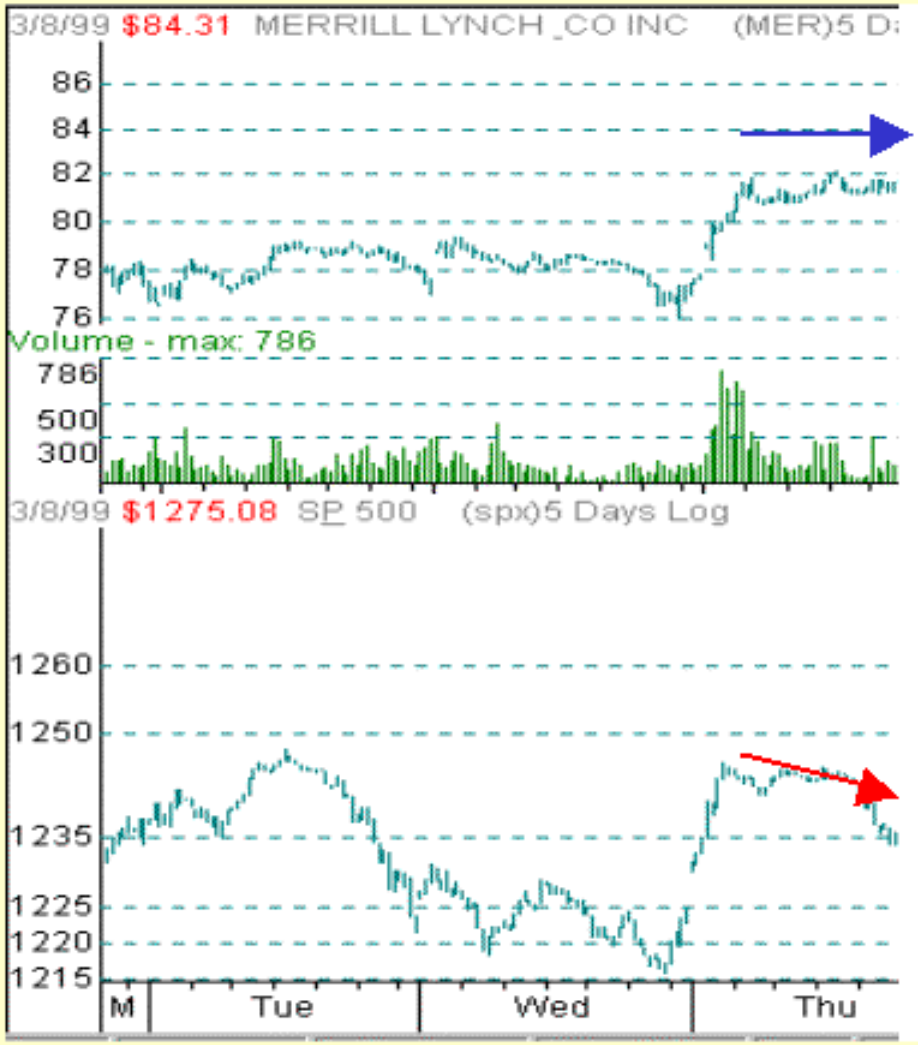

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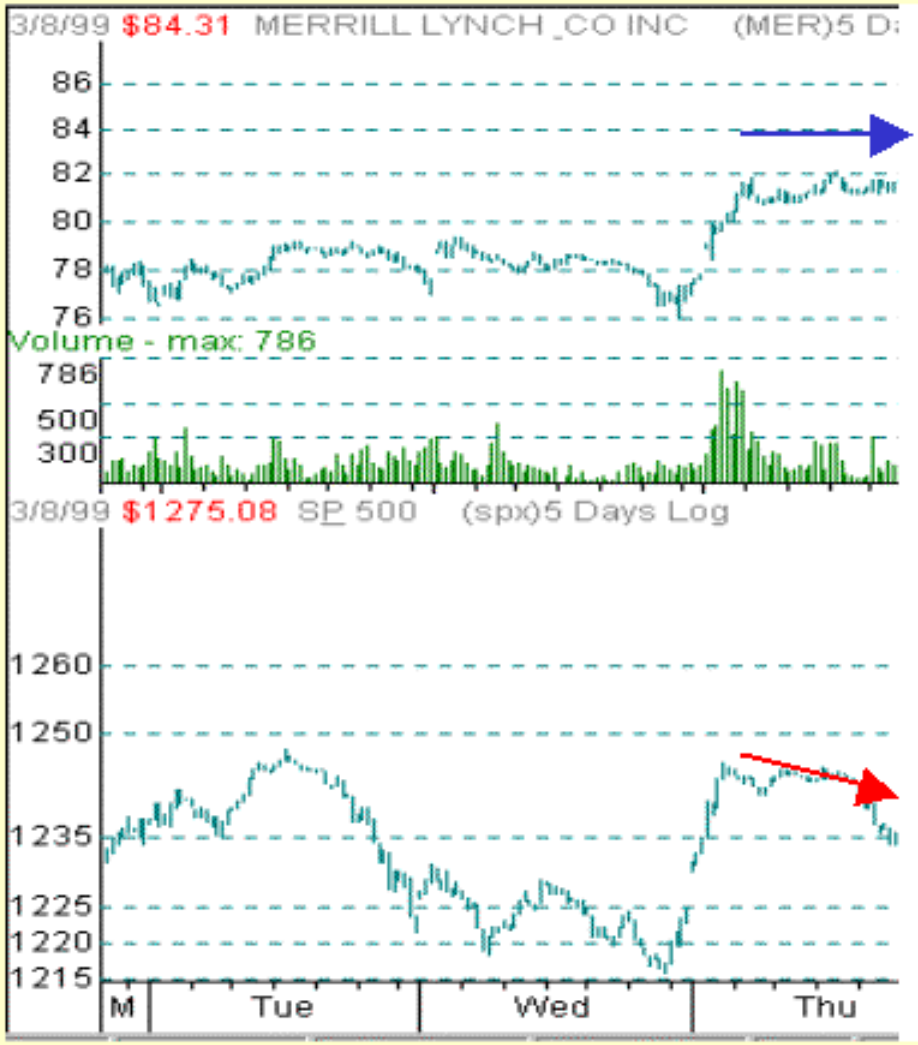

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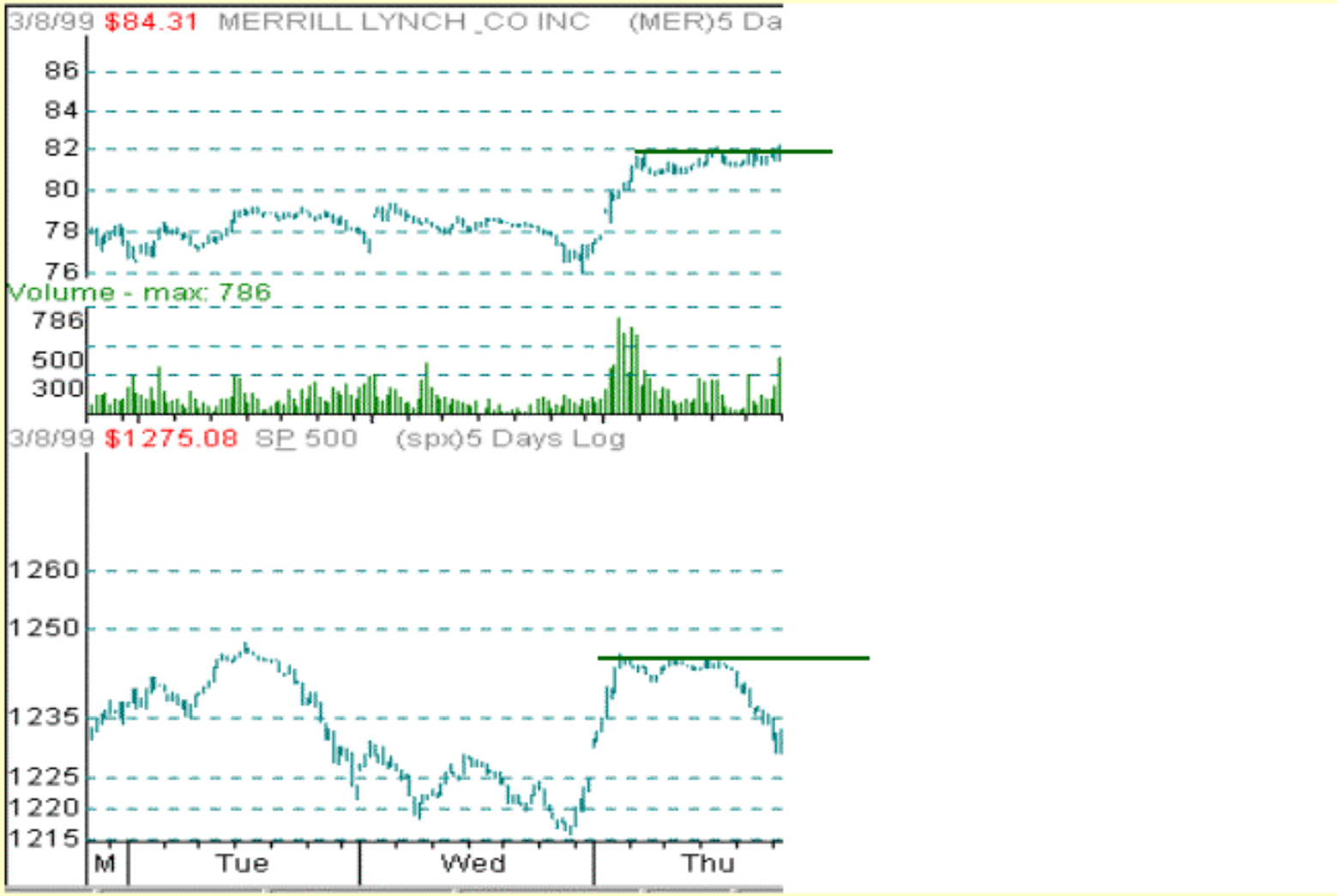

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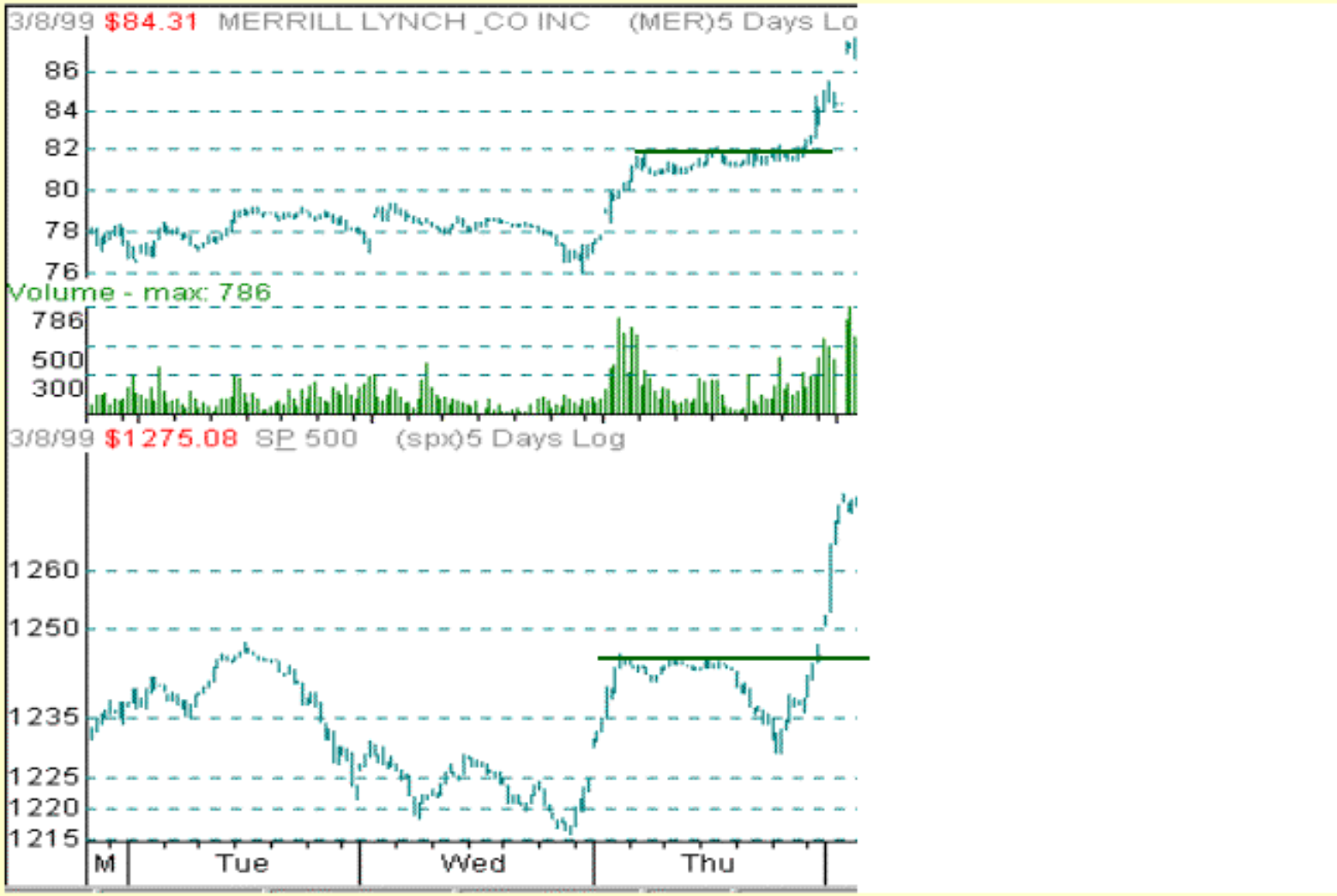

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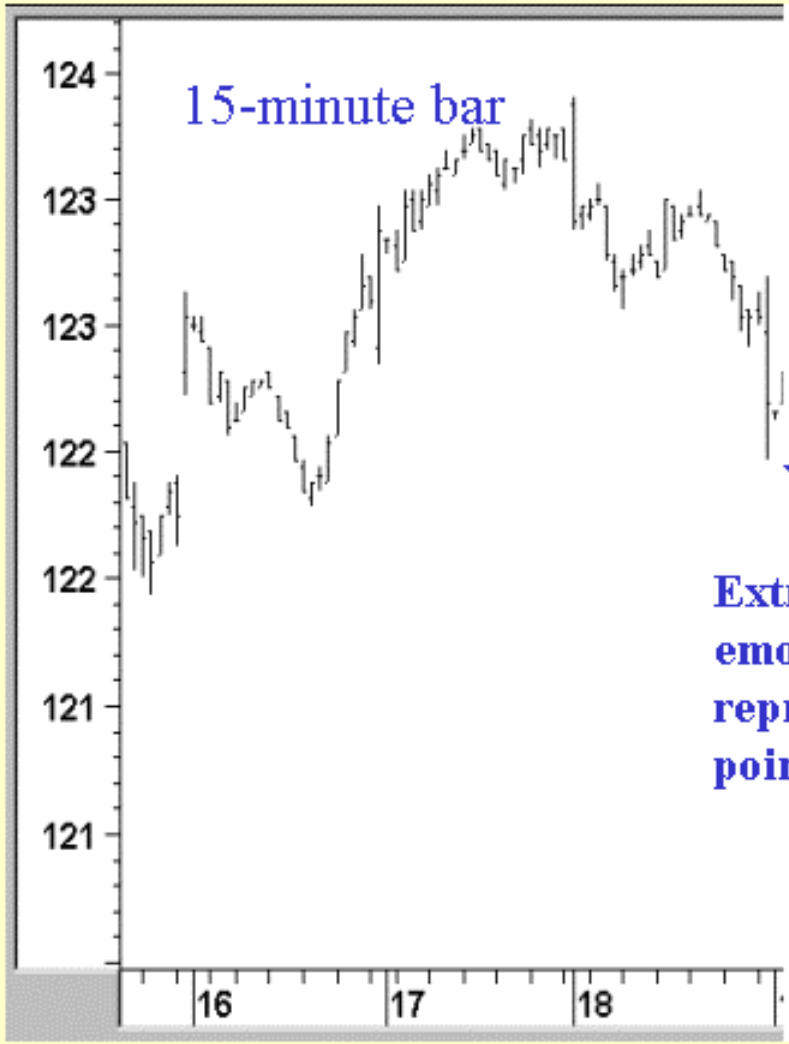
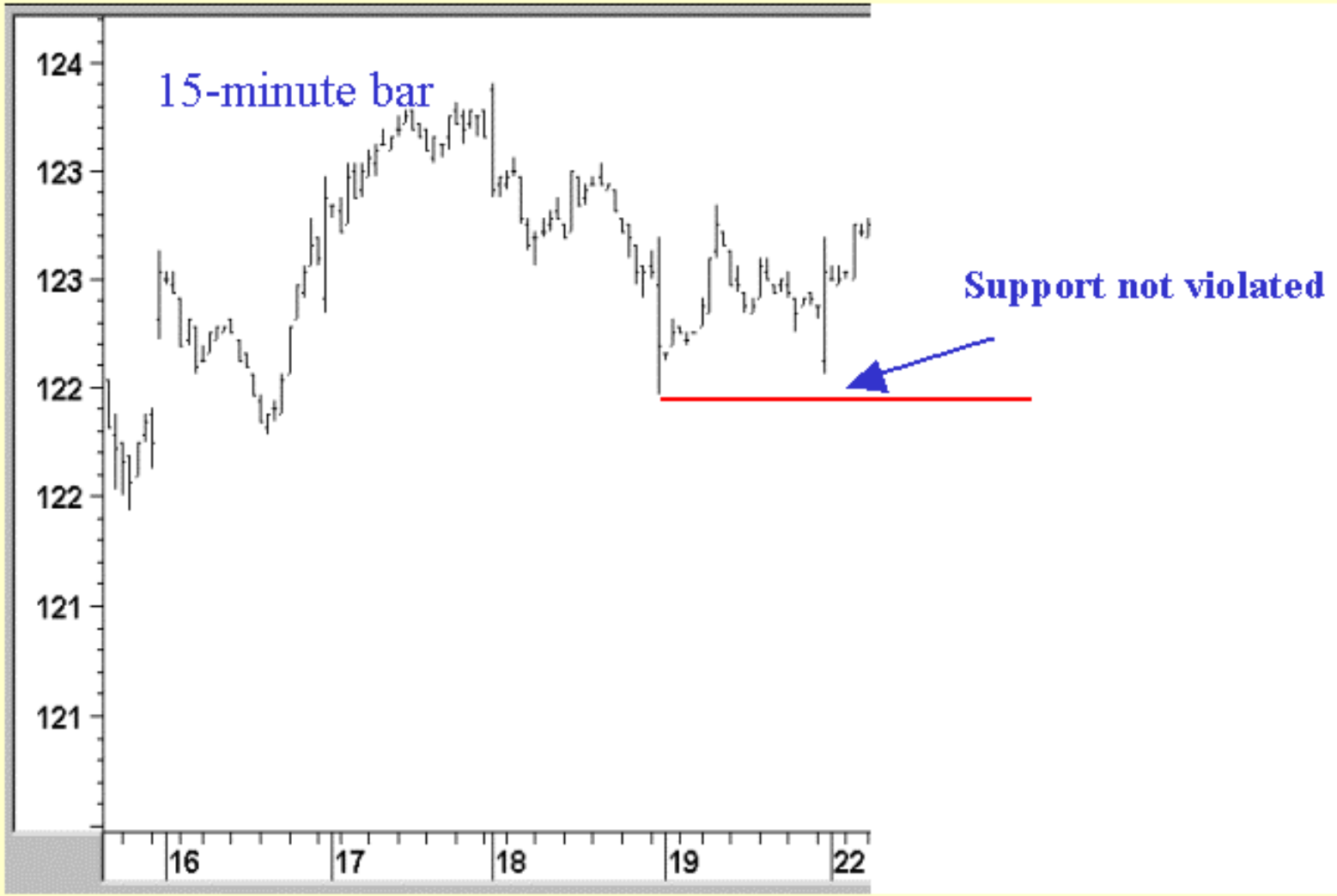
June 1997 Bonds



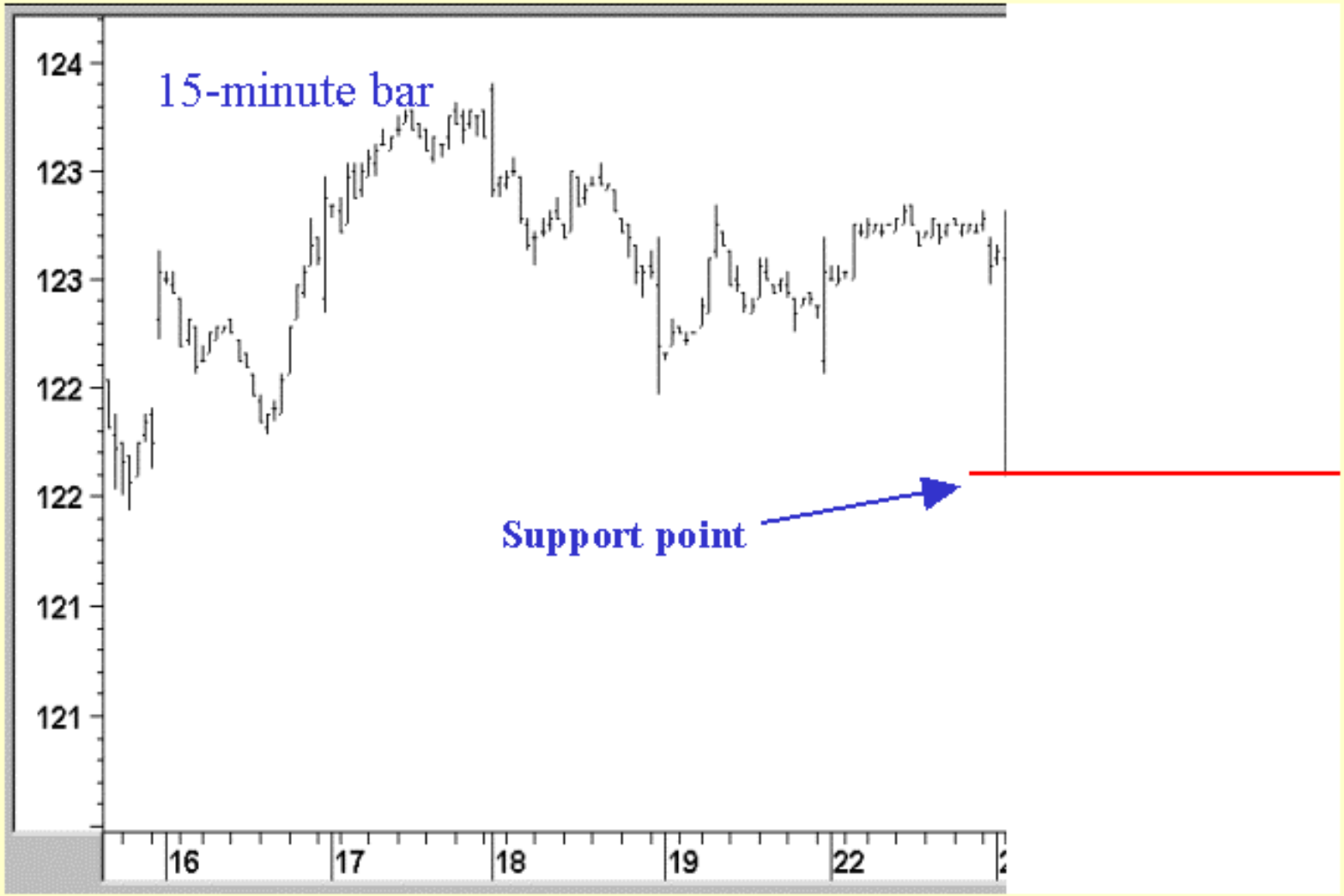
Extreme point of emotional bars often represents a key pivotal point.

June 1997 Bonds



June 1997 Bonds

June 1997 Bonds



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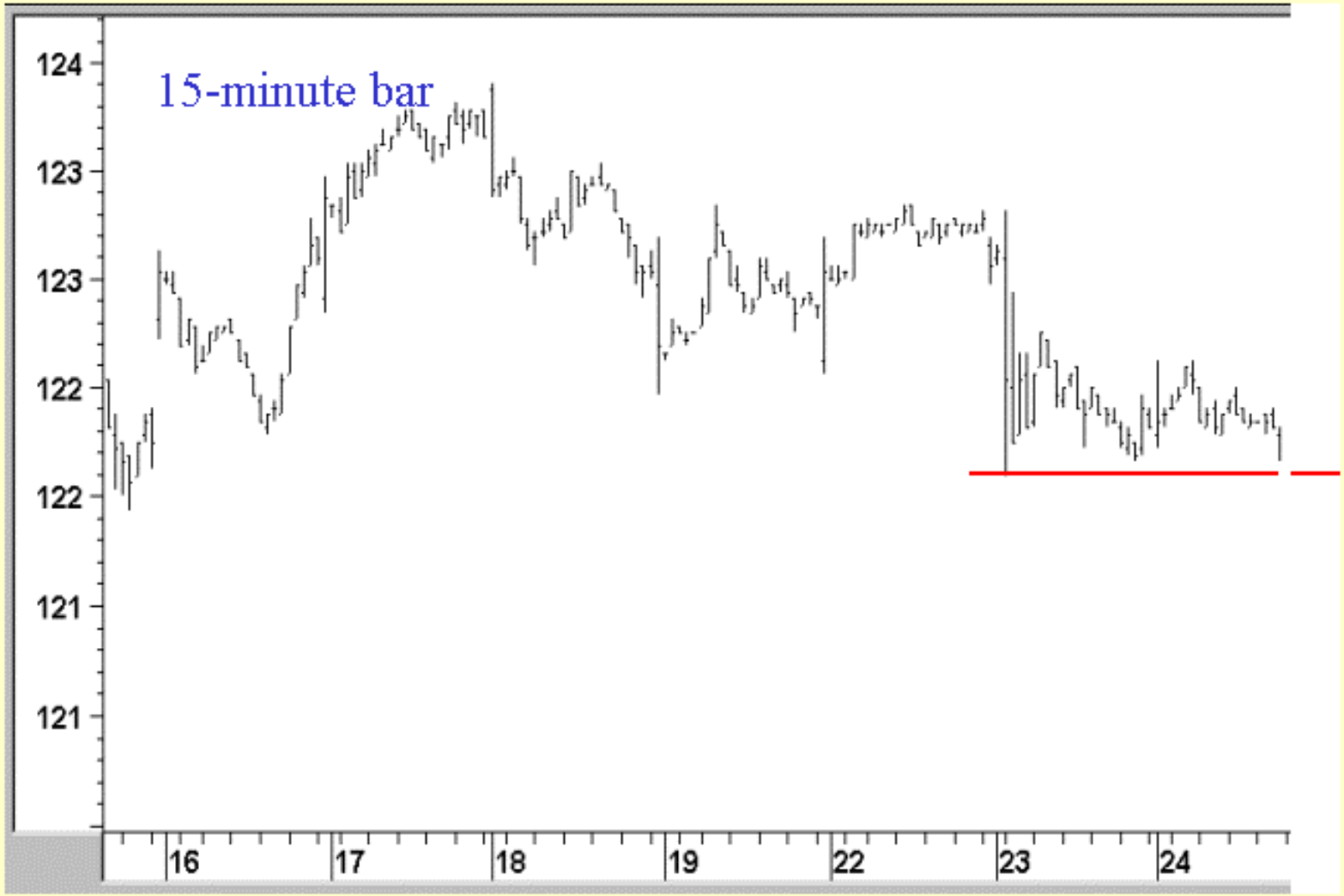

June 1997 Bonds

June 1997 Bonds

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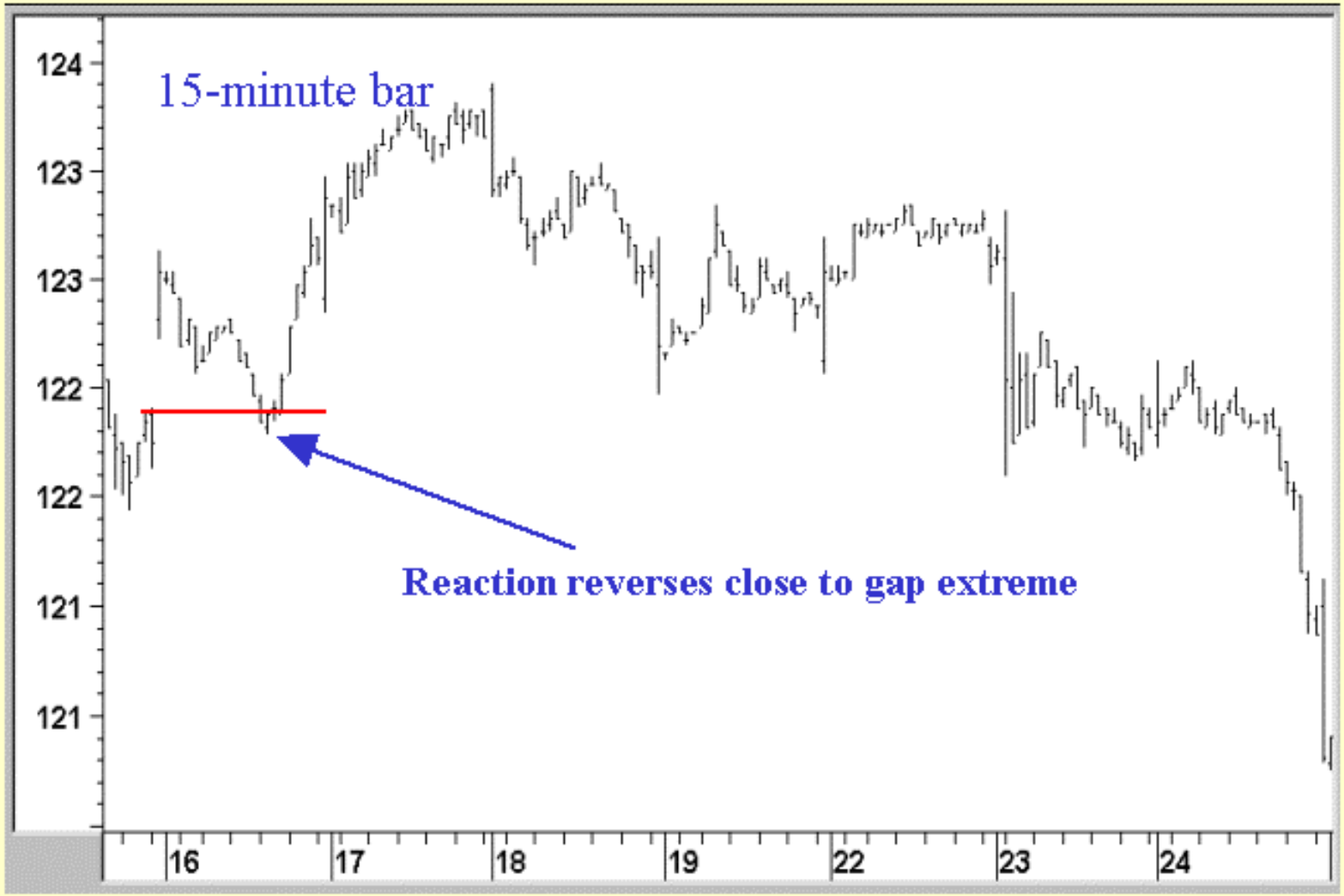
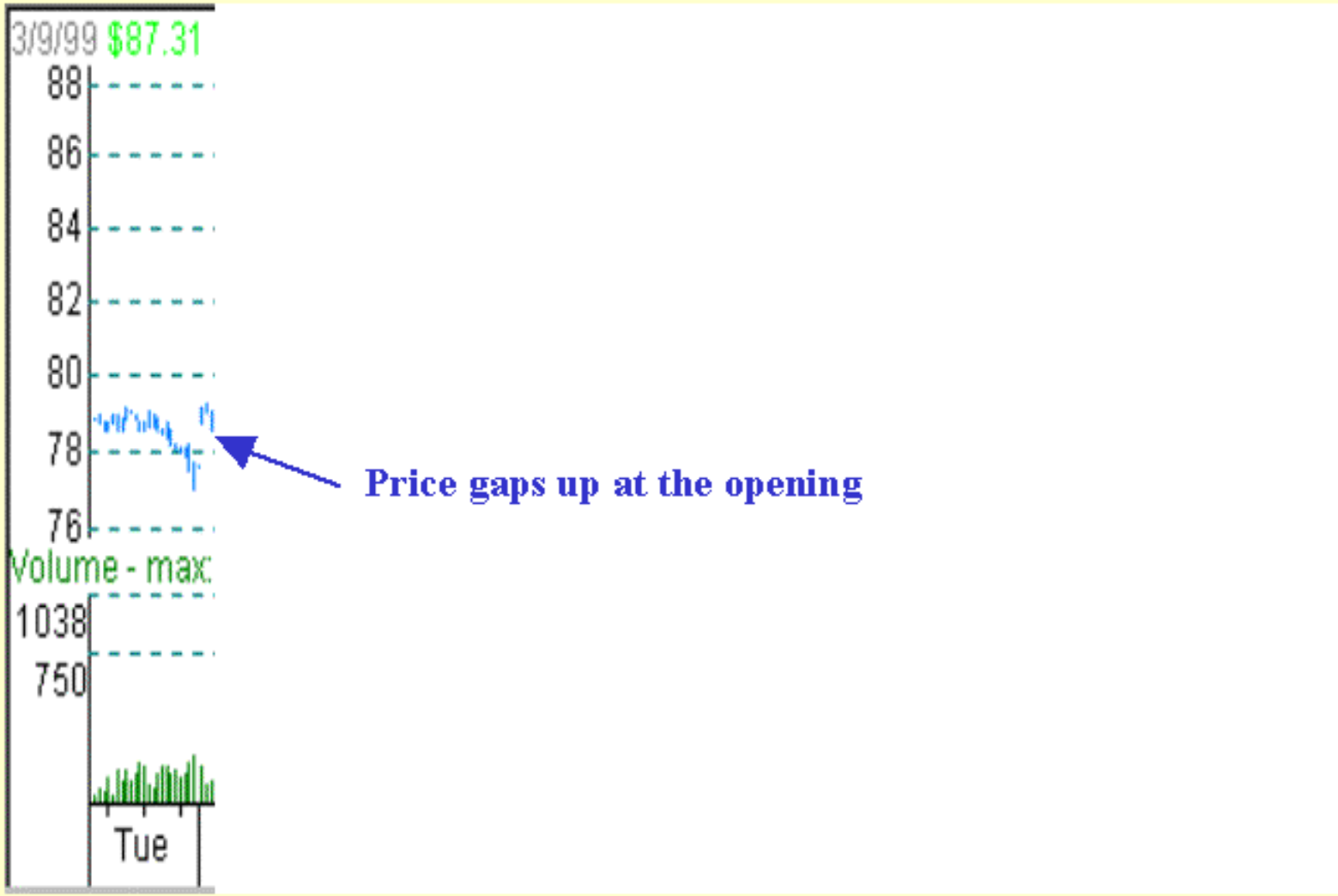
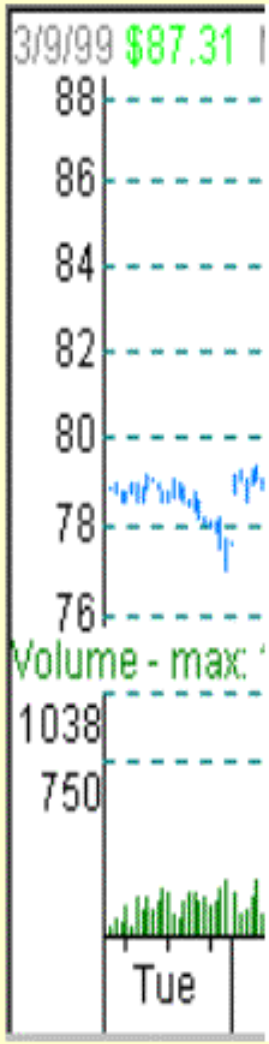


Merrill Lynch



Merrill Lynch



Opening range is a trading range.

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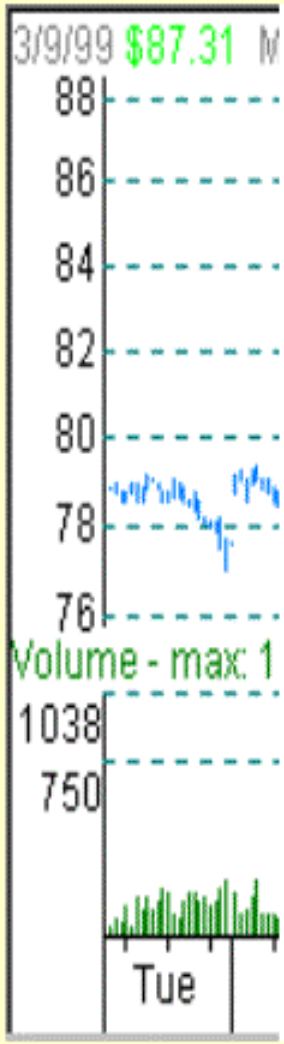

Price breaks to the downside.

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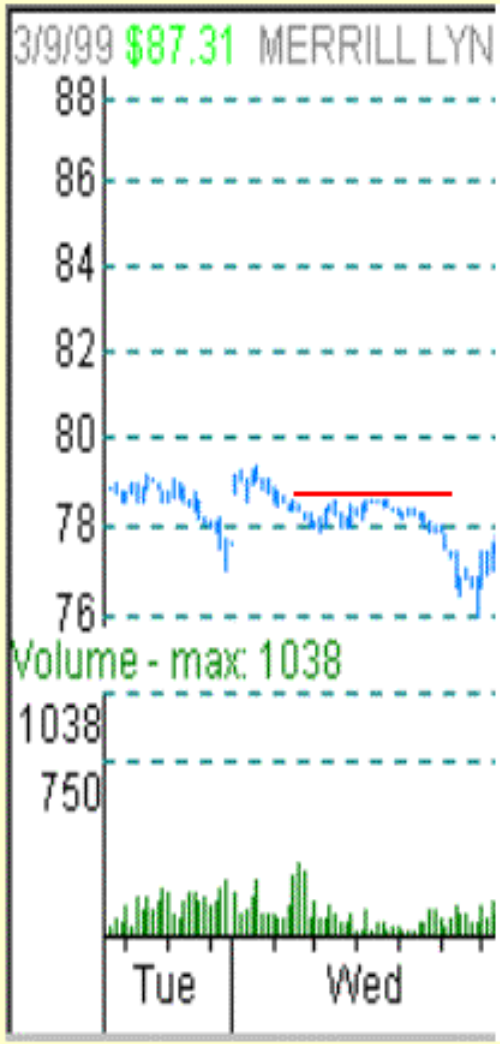
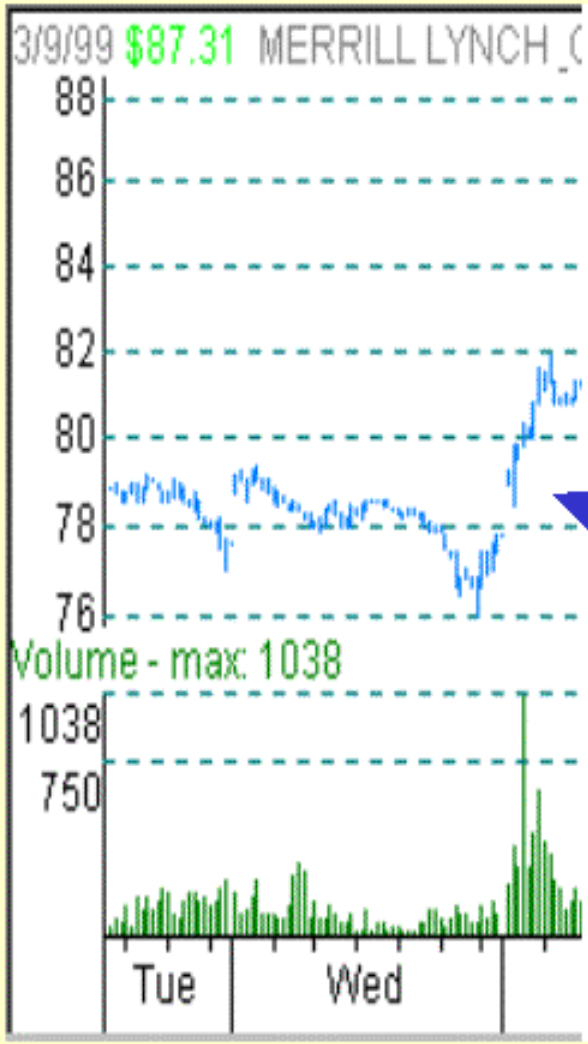


Merrill Lynch



Opening range resolved on the upside.

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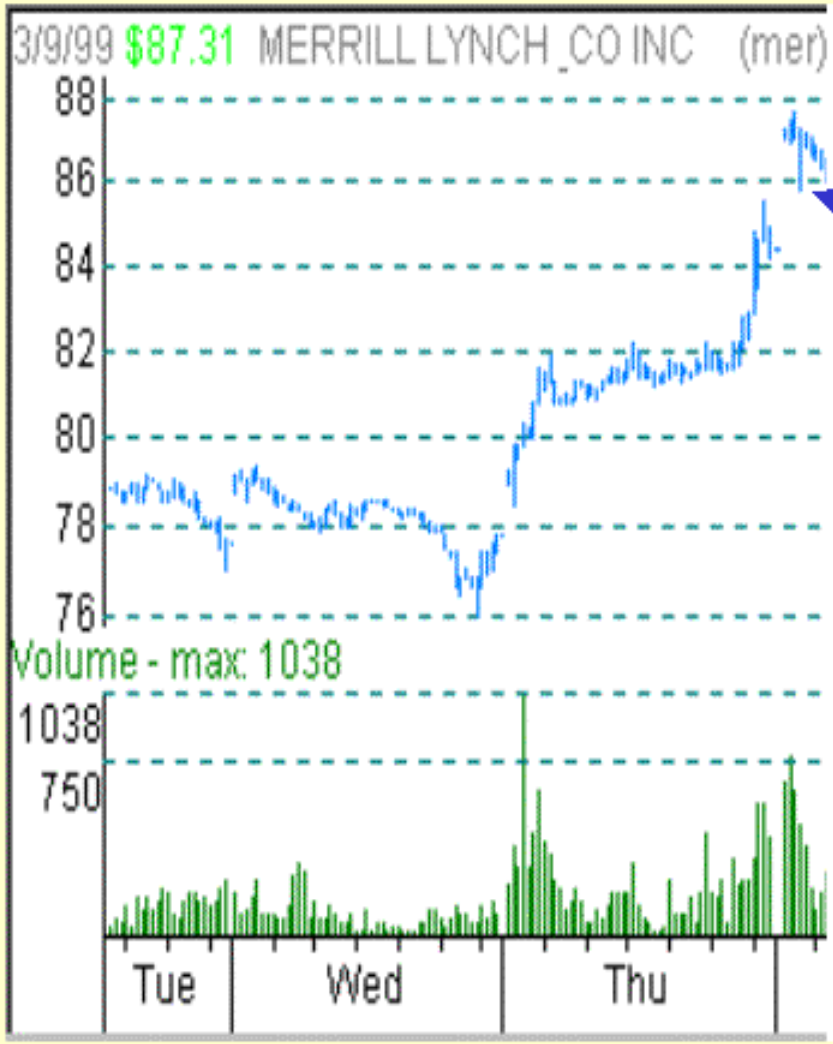

Gap opening

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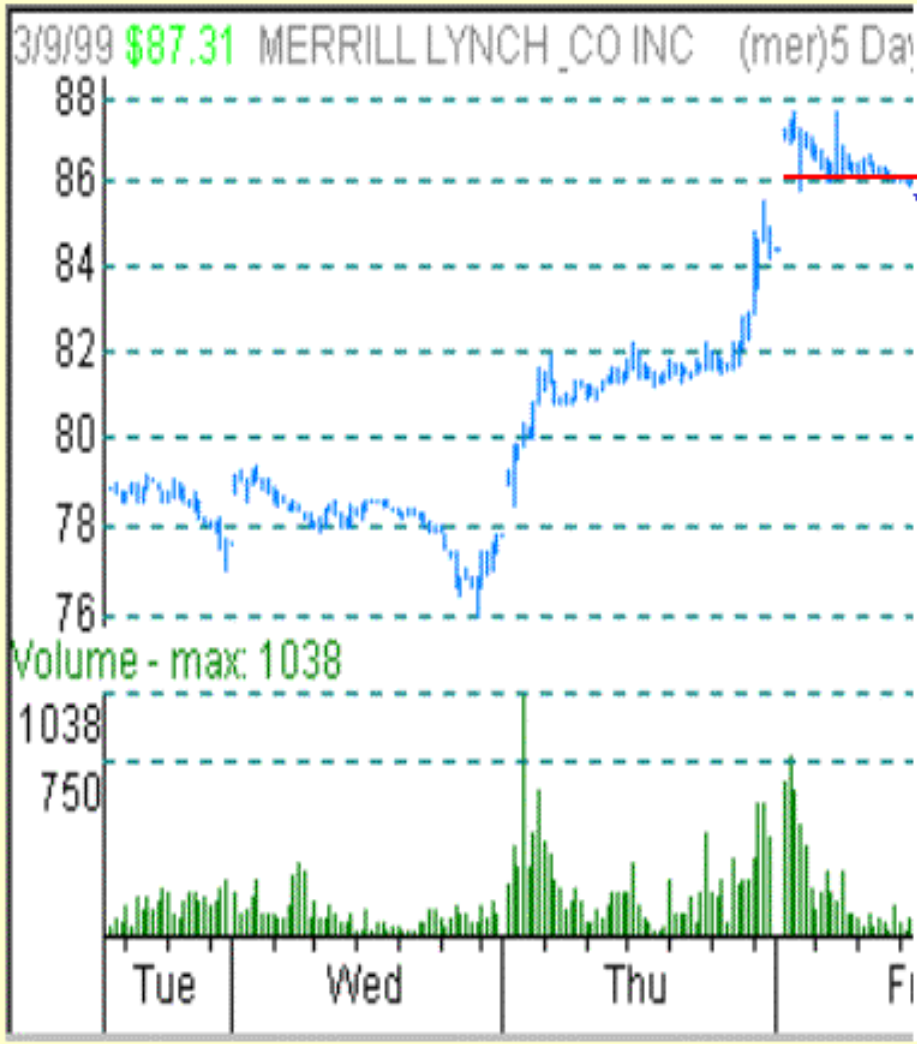

Key support

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Violation sets the scene for the rest of the day.

Amazon

3/9/99 $129.18 AMAZON COM INC (amzn)5 Days Log
132
128
124
120
116
Gap opening
Volume - max: 1163
1163
750
Tue
Wed
Thu
Fri

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